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THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2004

AN ANALYSIS
BY THE COMMITTEE ON THE BUDGET MAJORITY

11 February 2003

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Note: As of the publication of this document, appropriations for fiscal year 2003 remain unfinished. Therefore, budget figures for 2003 reflect the President’s request for that year.

CHAIRMAN'S INTRODUCTION

When President Bush submitted his fiscal year 2004 budget last week, the underlying question for me was: is it a fiscally responsible blueprint for governing? From what I have read at this point, and based on the ambitious agenda he laid out in last week's State of the Union speech, the answer seems to be yes.

The President's critics will scoff at that. They will point to the substantial near-term deficits in the budget – deficits that the President and his aides have not glossed over. Those deficits are troubling – especially coming just two years after we anticipated budget surpluses as far as the eye can see.

But we all know what happened. Our economy, which had slowed dramatically in 2000, slid into recession just as President Bush took office. Later that year, terrorism struck here on our own soil, further challenging our national and economic confidence. Our necessary response – rebuilding and shoring up here at home, and taking on terrorism where it breeds, overseas – has required a commitment of will and resources.

All these factors are still active today. At the same time, we continue to face increasingly urgent demands in areas such as education and health care. Budget deficits are among the results.

But fiscal responsibility is not just about making numbers add up a certain way. It is fundamentally about governing; and governing requires striking a balance among competing demands, weighing desires against needs, and facing obligations not only to today's generation, but also to tomorrow's.

Today's principal obligations are clear. We must prevail in the war against terrorism, committing all the resources necessary for that task.

We must provide for and enhance the security of our homeland. This is not a one-time job; it is a permanent and ongoing task – especially when we are trying to protect ourselves against evil minds who spend all their time calculating ways to terrorize and kill.

Both of these, along with the other needs cited above will require government spending – and will result in continued deficits for a time. But what matters is that we don't lose control of spending. We must not commit to strategies that win popular support today, only to balloon in costs that will be imposed on our own children.

Last, but most important, we must help restore the strength and stability of our economy. According to last week's projections by the Congressional Budget Office, without action, this economy will continue to limp along with unemployment rates at about 6 percent for the next several years. This is not acceptable to the President; it is not acceptable to me; above all, it is not acceptable to all those families struggling to make ends meet. It takes a growing economy to provides jobs and opportunities – which restores Americans' hope that they can make their lives better through their own efforts.

When it comes to stabilizing and strengthening the economy, most of the "stimulus" plans I have heard of focus only on the short-term, which does not provide either the stability or the long term strengthening that is needed. Such proposals are the economic equivalent of a crash diet versus a healthy lifestyle.

The President's plan, in contrast, recognizes that families and businesses need to be able to plan for the future. Whether it is a family planning for its children's education, or a business looking at a significant capital expenditure, they need short-term and long-term solutions. People who are out of work don't just need a job for the rest of year; they need jobs that will be created to last for years to come.

At the same time we do need to be very careful about controlling spending.

Our current situation is very much like the situation many families throughout the country are facing. When faced with tough times, they still buy the family groceries and cover the cost of emergencies but don't remodel their kitchen.

As we begin to construct this year's budget we must adhere to this same principle.

While I support the goal of ending deficits, the highest priority in crafting the budget will be promoting the overall strength and stability of our country There is no question that we face trying times but we have done so in the past and have always come out stronger as a Nation and as a people.

We must restore the stability and strength of this economy and this Nation.

Our budgets need to look beyond the next election and towards the next generation.

This analysis, prepared by the Committee on the Budget majority staff, describes the major policy proposals in the President's budget and places them in the context of broader spending trends. It also summarizes the President's efforts to improve the performance and management of Federal agencies.

JIM NUSSLE
Chairman

OVERVIEW OF THE PRESIDENT'S BUDGET

The President's budget describes his funding recommendations for the entire Government. But the document also reflects his top priorities, which are, principally, the following:

THE PRESIDENT'S GROWTH AND JOBS PLAN

Considering the still unsatisfactory state of the economy, described above, the President's budget includes a "growth and jobs plan to strengthen the American economy." The President's emphasis in on promoting growth in the economy and in jobs, both in the short run and the long run – not just to provide a "stimulus" plan.

The President's plan – with a budget impact of $359 billion over 5 years and $615 billion over 10 years – emphasizes personal income tax reductions, including the following: advancing scheduled income tax rate cuts, reduction of the marriage penalty, and increases in child tax credits. The plan also calls for eliminating the double taxation of personal dividend income, holding harmless taxpayers affected by the alternative minimum tax, and providing additional investment incentives for small businesses, by increasing the allowable expensing of equipment from $25,000 to $75,000.

THE WAR AGAINST TERRORISM ABROAD

As the lead agency for direct combat operations against terrorism, the Department of Defense [DOD] is a top funding priority in the President's budget. DOD's budget represents more than 95 percent of the funding in Function 050 (National Defense).

The administration's fiscal year 2004 proposal calls for $399.1 billion in discretionary budget authority [BA] – a $16.9-billion, or 4.4-percent, increase over the previous year's appropriated level. The administration estimates discretionary outlays at $389.7 billion. Secretary Rumsfeld sees the $399.1-billion budget as part of a multiyear plan enabling the military both to fight the war against terrorism now, and to transform DOD to counter unconventional threats in the future. The successful strike against terrorists in Yemen by an armed Predator drone last November may indicate the kinds of transformational technologies the Secretary is seeking.

The President's proposed budget does not request funds for a possible war against Iraq, mainly because of the many variables and uncertainties involved in such a military action. The cost of such a conflict will be funded through a supplemental appropriations request.

HOMELAND SECURITY

To help contend with the continuing potential for terrorist attacks, the Homeland Security Act of 2002 [HSA] created a new Department of Homeland Security [DHS] charged with preventing, reducing, and minimizing acts of terrorism against the United States. The President's budget proposes $41.3 billion ($35 billion excluding Department of Defense spending) for homeland security in fiscal year 2004.

MEDICARE

The President's budget includes $400 billion over 10 years for Medicare reform, protection against catastrophic costs, and prescription drug coverage. Details of the Medicare reform proposal are not included in the President's fiscal year 2004 budget. Instead, the administration has said it intends to roll out details of the plan separately in the near future. The budget also proposes to increase physician payment rates.

OTHER PROPOSALS

The President's budget also contains myriad other proposals. The most important of these also are discussed in this document, organized by the functional categories that the Budget Committee will use in developing a budget resolution for fiscal year 2004.

ECONOMIC ASSUMPTIONS

ASSUMPTIONS UNDERLYING THE PRESIDENT'S BUDGET

As always, the administration's budgetary estimates depend in large part on its projection of economic performance.

The administration's economic projections were prepared at the end of November, prior to the formulation of the President's "growth and jobs plan." As such, the assumptions do *not* include the effects of the President's tax relief proposals. The administration's economic projection is quite similar to those of the Congressional Budget Office [CBO] and Blue Chip (see Table 1 on the next page):

- The projection assume real gross domestic product [GDP] growth of 2.9 percent in calendar year 2003, and 3.6 percent in 2004.
- After that, the administration projects real GDP growth averaging 3.3 percent over 2005-2008.
- The administration assumes consumer price index [CPI] inflation of 2.2 percent in 2003, and 2.1 percent in 2004. It projects average annual inflation at about 2.2 percent for the 2005-2008 period.
- Compared to the Congressional Budget Office [CBO], the administration's assumptions show slightly higher real GDP growth for 2003 and a slightly lower unemployment rate in 2003 and 2004. The administration also assumes somewhat lower inflation over the projection than CBO and Blue Chip.

In short, the administration's assumptions appear to be prudent, and in line with other forecasters. The administration would expect an even more favorable economic outcome with the adoption of the President's growth and jobs plan.

As such, the current projection represents a conservative set of economic assumptions for budget estimation purposes.

THE ECONOMY AND JOB GROWTH

The economy continues in its sluggish recovery from the slowdown and recession of 2000-2001. Despite continued growth in real gross domestic product [GDP] – averaging about 2¾ percent over the past year – the pace of economic growth is not fast enough to reduce unemployment or boost job creation.

Continued high growth in labor productivity has allowed businesses to expand production without hiring new workers. The high growth in productivity is a good sign for continued growth of real wages, and is indicative of the good underlying fundamentals for U.S. economic performance. But it also contributes to the lag in jobs growth even as the economy is growing. Some data concerning this situation:

- The most recent employment report showed that payroll employment fell by 101,000 jobs in December, and that the unemployment rate was 6.0 percent (up from 4.0 percent at the end of 2000).
- Private forecasters and the CBO expect the pace of growth to improve only gradually during 2003, with the unemployment rate remaining near 6.0 percent for much of the year.
- A further concern is that the economy could underperform the private "consensus" forecast; a substantial risk exists that the economy will continue to struggle to regain sustained higher growth, and the unemployment rate could increase further and remain stubbornly high.

It is generally expected that the economy – with its inherent flexibility and ability to adjust to shocks and to correct inefficient imbalances – ultimately will recover and return to its potential growth path with sustained growth in jobs, and with the unemployment rate falling back toward its "natural" long-run level. Both the Blue Chip private consensus forecast and the CBO forecast show that happening over the next 2 years to 3 years. But given the slow recovery and uncertain nature of economic forecasting, concern remains over how long this recovery will take, and whether policies can be adopted that assure a quicker return to the economy's potential growth rate, and at the same time provide for higher long-run growth as well.

The typical view among economists is that monetary policy is better oriented than fiscal policy to "help the economy get back to potential faster." But the jobless recovery of 1990-92, and the current recession-and-slow-recovery episode, show that monetary policy does not always move fast enough or have enough effect up front to provide a sufficient boost to the economy.

Table 1: Economic Projections: Administration, CBO, and Blue Chip Consensus
(percentages)

	2002	2003	2004	2005-2008
Real GDP Growth				
Administration	2.4	2.9	3.6	3.3
CBO	2.4	2.5	3.6	3.3
Blue Chip	2.4	2.8	3.6	3.2
Unemployment Rate				
Administration	5.8	5.7	5.5	5.1
CBO	5.8	5.9	5.7	5.3
Blue Chip	5.8	5.9	5.5	5.2
CPI Inflation				
Administration	1.6	2.2	2.1	2.2
CBO	1.6	2.3	2.2	2.4
Blue Chip	1.6	2.2	2.3	2.5
3-Month Treasury Bill				
Administration	1.6	1.6	3.3	3.3
CBO	1.6	1.4	3.5	3.3
Blue Chip	1.6	1.6	2.9	3.2
10-Year Treasury Note				
Administration	4.6	4.2	5.0	5.5
CBO	4.6	4.4	5.2	5.6
Blue Chip	4.6	4.5	5.2	5.6

Sources: OMB, CBO, and Blue Chip Economic Indicators (January 2003 and October 2002)

FISCAL OVERVIEW OF THE PRESIDENT'S BUDGET

The President's budget contains specific language regarding appropriations for 2004 and shows the impact of those and other policies for the next 5 years.

Under the President's plan, the Office of Management and Budget [OMB] estimates the following:

- Total Federal spending of $2.229 trillion for fiscal year 2004, which begins on 1 October 2003. Revenue for that year is estimated at $1.922 trillion. This combination of spending and revenue results in a deficit of $307 billion (see Table 2 below).
- For fiscal year 2003, the current fiscal year, OMB expects spending of $2.140 trillion, revenue of $1.836 trillion, and a deficit of $304 billion.
- Over the next 5 years, fiscal years 2004-2008, the administration proposes total spending of $12.323 trillion and receipts of $11.239 trillion. The resulting cumulative deficit is $1.084 trillion.
- Debt held by the public is expected to increase from $3.540 trillion at the start of this fiscal year to $5.003 trillion at the end of fiscal year 2008.

Table 2: Administration's Overall Budget Estimates, 2003-2008
(by fiscal year, in billions of dollars)

	2003	2004	2005	2006	2007	2008	2004-2008
Total Revenue	1,836	1,922	2,135	2,263	2,398	2,521	11,239
Total Spending	2,140	2,229	2,343	2,464	2,576	2,711	12,323
Surplus/Deficit (-)	-304	-307	-208	-201	-178	-190	-1,084
Debt Held by the Public	3,878	4,166	4,387	4,603	4,797	5,003	1,125

Source: Office of Management and Budget.

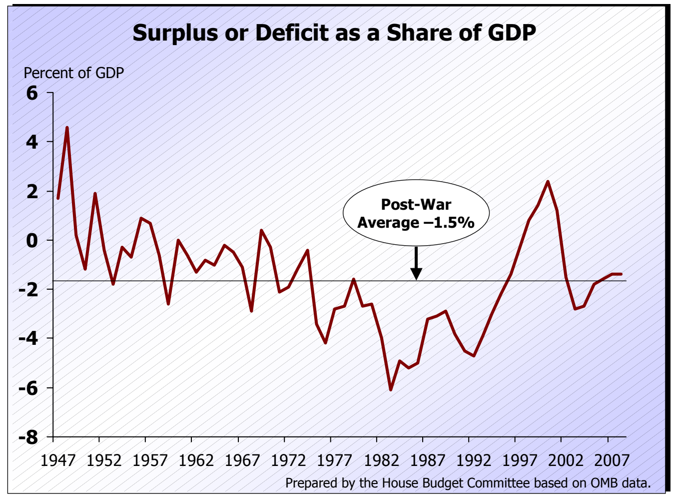
The deficits expected for fiscal years 2003 and 2004 would be the largest ever recorded in dollar terms. As a share of the economy, however, those figures, as well as the spending, revenue, and debt figures above, are consistent with postwar history.

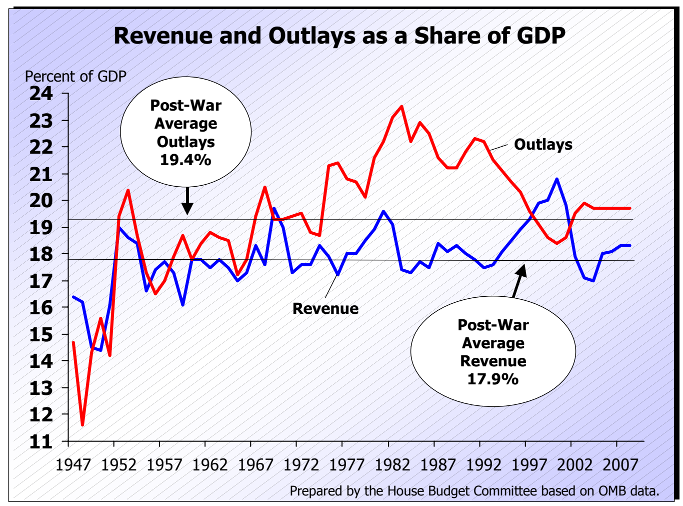
- As shown in the chart on the next page, the deficits expected for the current year, and for the 2004 budget year would be smaller as a share the Nation's gross domestic product [GDP] than any in the 12-year period preceding Republican control of the House of Representatives in 1995. Budget deficits would be slightly below the post-war average by fiscal year 2007.
- Revenue will return to levels slightly above the post-war average of 17.9 percent of GDP in fiscal year 2005, after including the impact of the economic growth package. Outlays, however, also remain slightly above their post-war average of 19.4 percent of GDP, resulting in the narrowing deficits projected by the administration (see chart, next page).

THE FISCAL IMPACT OF THE PRESIDENT'S PROPOSALS

In total, the President's proposal adds $932 billion to baseline estimates of the deficit over the period of fiscal years 2003-2008, assuming discretionary appropriations for the current fiscal year are completed at approximately $751 billion in new discretionary budget authority assumed by the Congressional Budget Office. (These figures include fiscal year 2003 because the President's growth proposals have effects in that year).

Slightly more than half (51 percent) of this increase in the deficit is the result of the lower tax burden recommended by the President. About another quarter (23 percent) stems from the President's proposals to increase mandatory spending. Another sixth (17 percent) comes from the increases in appropriated–so called discretionary – spending called for in the budget. The final tenth is attributed to the higher interest costs that result from policies recommended in the budget (see Table 3, page 9).





Revenue Proposals

The President's revenue proposals will reduce receipts compared with baseline estimates by a total of $31 billion in the current fiscal year, $441 billion for the period of fiscal year 2004-2008, and $1.307 trillion over the decade 2004-2013.

Virtually all of the reduction in revenues in fiscal year 2003 is the result of the President's proposed economic growth package. A sum of $23 billion of the $31 billion total reduction in revenue may be attributed to the proposal to accelerate to tax year 2003 individual income tax reductions scheduled to take effect in future years.

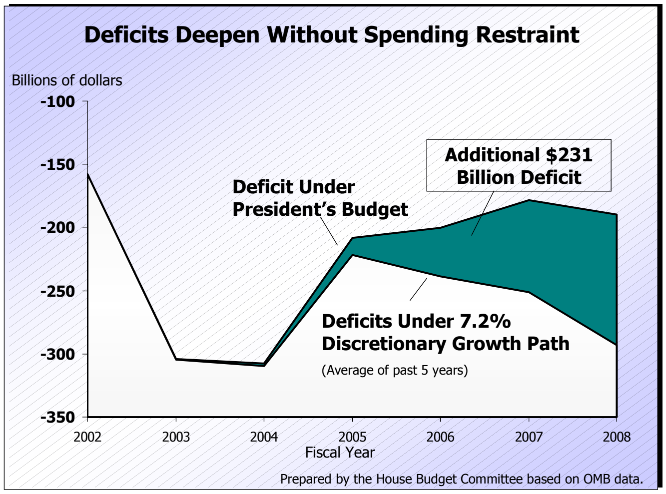
Over the 2004-2008 period, $359 billion of the total $441 billion revenue reduction – more than 80 percent – stems from the growth package, with $185 billion resulting from the accelerated individual income tax changes, and $140 billion coming from the President's proposal to eliminate the double taxation of corporate earnings. The remaining $82 billion in tax reductions would, among other things, provide incentives for charitable giving, increase energy production and promote energy conservation, and promote investments in health care.

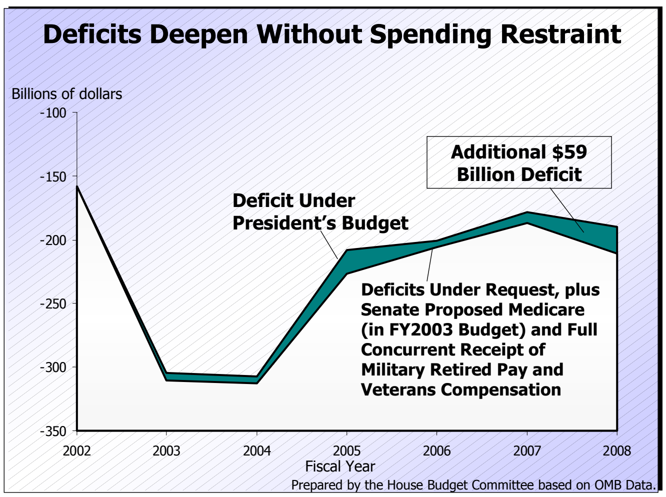
In the next decade, the period of fiscal years 2004-2013, the administration expects that the growth package will return $615 billion to taxpayers, 47 percent of the total. Extending expiring tax provisions – including the provisions of the 2001 tax reduction program that expire in 2010 – constitutes another $588 billion (45 percent) of the total $1.307 trillion revenue package.

Discretionary Spending Proposals

The President requests that discretionary spending for fiscal year 2004 total $782.2 billion in new discretionary budget authority, a growth rate of 4 percent over the approximately $752 billion assumed by the administration to result from negotiations over fiscal year 2003 appropriations.

During fiscal years 2004-2008, the budget assumes an annual average growth rate of 3.7 percent, roughly 1½ times the rate of consumer price inflation, but almost half of the 7.2-percent rate of increase recorded in the preceding 5-year period.





- **Defense Appropriations:** The administration recommends $399.2 billion in fiscal year 2004 for the defense function (050), an increase of 4.4 percent above the level assumed for the current year. Of that amount, $379.9 billion is recommended for the operations of the Department of Defense [DOD], including $6.7 billion for homeland defense (see further discussion below).

  For fiscal years after 2004, the budget assumes that DOD appropriations will grow at the rate of inflation, plus an additional $10 billion for each fiscal year. As a result, function 050 appropriations increase at an average annual rate of 4.7 percent in each of the next 5 years, reaching $480.4 billion in fiscal year 2008.

- **Nondefense Appropriations:** The administration recommends $383 billion in fiscal year 2004 for nondefense appropriated spending – an increase of $13.4 billion, or 3.6 percent, above the level assumed for fiscal year 2003. For fiscal years after 2004, the budget assumes an average annual rate of increase of 2.5 percent, resulting in nondefense appropriations of $423.2 billion in fiscal year 2008.

- **Spending Balance:** Defense appropriations as a share of total discretionary appropriations would increase from 49.1 percent of the total in 2002 to 53.2 percent of the total in 2008.

Failure to maintain the spending discipline recommended in the budget would result in a significant increase in projected deficits. Continuing the 7.2 percent rate of growth of the past 5 years adds $231 billion to the deficit over the next 5 years. Adding higher unbudgeted mandatory increases, such as the larger Medicare increases or full concurrent receipt of DOD retired pay and veterans' disability payments favored by the Senate last year would also add to deficits (see charts alongside.)

Mandatory Spending Proposals

The President's entitlement proposals will increase net outlays by $13 billion in fiscal year 2004, by $206 billion over the 2004-2008 period, and by $568 billion over the decade 2004-2013. The largest proposal is to modernize Medicare with a prescription drug benefit. That proposal would spend $6 billion in 2004, $130 billion over the next 5 years, and $400 billion over the next 10 years. That spending amount is almost the same as the amount passed by the House in the 107th Congress, adjusted for the increased costs of prescription medicines.

Another large portion of the increase stems from the President's growth program. This includes $2 billion in 2004 (plus $1.6 billion in 2003) for personal re-employment accounts, and $26 billion over the 2003-2013 period for the refundable portion of the child tax credit (which is counted in the budget as an outlay).

Other significant increases over fiscal years 2004-2013 include the following:

- $116 billion for the refundable portion of other tax credits, principally the extension of the child credit

($21 billion) and the administration's proposed health care tax credit ($88 billion).

- $31 billion to adopt a pension proposal for the Postal Service.
- $17 billion to reform Unemployment Insurance administration.
- $6 billion for vaccine biodefense.
- $4 billion for welfare reform.

The administration also recommends a total of $46 billion in mandatory spending offsets over the 2004-2013 period. These savings are achieved from the following budgetary proposals: extending customs user fees ($19 billion); income related to the use of the electromagnetic spectrum ($7 billion); Medicaid ($6 billion); limiting agriculture conservation payments ($5 billion); prohibiting veterans' compensation for disabilities from drug and alcohol abuse ($5 billion); improving administration of the Social Security and Supplemental Security Income programs ($3 billion); and lease bonus payments from use of the Arctic National Wildlife Refuge ($1 billion).

Homeland Security Spending

The budget proposes $41.3 billion for homeland security funding in fiscal year 2004. This includes both discretionary and mandatory amounts, before accounting for $3.5 billion in offsetting collections such as airline passenger security fees.

The total is virtually flat compared with OMB's estimate of fiscal year 2003 spending. Discretionary homeland security spending prior to offsetting collections totals $38.5 billion in 2004, including $6.7 billion for the DOD. That is down slightly from the $39.0 billion anticipated for 2003 – attributable to $2.1 billion in one-time spending in 2003 for security upgrades to DOD facilities.

- Department of Homeland Security [DHS] spending would increase from $22.0 billion in 2003 to $23.9 billion in 2004 under the President's request. This $1.9-billion increase is an 8.6-percent year-over-year increase for this new agency.
- Non-DHS, non-DOD homeland security spending would increase from $10.1 billion in 2003 to $10.7 billion in 2004, an increase of 6 percent.

Table 3: Impact of the Administration's Budget Policy, 2003-2008
(by fiscal year, in billions of dollars)

	2003	2004	2005	2006	2007	2008	2004-2008
OMB Adjusted Baseline Surplus/ Deficit (-)	-271	-169	-53	-10	13	34	-185
Changes in Receipts	-31	-109	-100	-89	-71	-72	-441
Changes in Outlays:							
Discretionary	0	13	25	32	36	50	156
Mandatory	2	13	20	51	58	65	209
Net Interest	0	3	10	18	26	36	93
OMB Policy Deficit (-)	-304	-307	-208	-201	-178	-190	-1,084

Source: Office of Management and Budget.

COMPARISON OF OMB BASELINE WITH CBO'S

The President's budget begin with the formulation of a "baseline" developed by the administration's Office of Management and Budget [OMB]. A baseline is constructed to serve as a benchmark against which the budgetary effects of proposed changes in Federal revenue and spending are measured. It is an estimate of future revenue and spending levels, and the resulting surpluses or deficits, under current laws and policies.

Hence, OMB's baseline – like that of the Congressional Budget Office [CBO] – makes no assumptions regarding various key issues, such as the growth package proposed by the President, a potential military action against Iraq, or adoption of a Medicare prescription drug plan. Such policies, if pursued, would be added to or subtracted from the baseline estimates.

Both OMB and CBO construct baselines using the statutory guidance of the Budget Enforcement Act [BEA]. Those rules specify that over the projection period, discretionary appropriations are assumed to increase from the current year's level at the rate of inflation.

Because 11 of the 13 regular appropriation bills have not been enacted for fiscal year 2003, the current-law level of discretionary spending is $738 billion in budget authority under a continuing resolution (H.J.Res.18). But the President and the Republican leadership have agreed that regular fiscal year 2003 appropriations should total $751 billion; hence CBO has prepared two sets of baseline projections this year – one with the current-law level of discretionary spending, and another with the higher adjusted level. The analysis below employs the former, which is comparable to the OMB baseline.

Differences Between the Current OMB and CBO Baseline Projections

Generally, OMB and CBO baseline projections differ somewhat due to their different assumptions about economic and technical factors, such as the growth of gross domestic product [GDP]; the composition of GDP (which affects the tax base); inflation; interest rates; and the rate at which a Government agency spends the money it is appropriated (the spendout rate). The differences between OMB and CBO baseline projections are shown in Table 4 on the next page.

As shown in the table, the two baselines are remarkably similar. OMB expects lower revenue and discretionary outlays, and higher net interest outlays and deficits, than does CBO. OMB also projects higher mandatory spending in the first year, but lower over 5 years. To put these figures in perspective, the differences as percentages of estimated total levels are about 1 percent for revenue, 1.4 percent for discretionary spending, and less than one-half percent for mandatory spending.

Revenue

Revenue accounts for the largest difference between the two baselines. OMB's estimates of revenue are $23 billion lower for fiscal year 2003, and $121 billion lower for fiscal years 2004-2008. This is partly attributable to OMB's technical downward adjustments ($25 billion in 2003, and $15 billion in 2004) to reflect current greater-than-usual uncertainty in revenue forecasting. The remaining differences arise from both economic and technical factors. OMB's assumption of lower nominal GDP results in a lower tax base than estimated by CBO. OMB also assumes much lower corporate profits as a share of GDP. When those factors are combined, OMB's model generates lower revenue projections from both individual and corporate income tax receipts, which account for more than half of total Government receipts.

Outlays

The differences in discretionary outlay estimates are small in the near term, and remain fairly constant over time. They differ by $11 billion for fiscal year 2004, and $57 billion over 5 years. Most of the outlay differences are from defense (Function 050) and transportation (Function 400). OMB's lower estimates are due to the assumption of lower inflation and faster spendout rates.

Mandatory outlays differ by $4 billion for fiscal year 2004 and -$24 billion for fiscal years 2004-2008. For the first year, the difference arises primarily from OMB's higher estimate of Medicaid spending ($10 billion), which is partly offset by the lower estimate of Unemployment Compensation (-$6 billion). For the 5-year period, the difference in Medicaid estimates becomes predominant. OMB's estimate of Medicaid is $71 billion higher than CBO's, entirely offsetting other major differences in individual programs, such as Medicare (-$49 billion), Social Security (-$29 billion), and Unemployment Compensation (-$13 billion).

Net Interest

OMB estimates higher net interest outlays. For fiscal year 2004, OMB's estimate is $9 billion higher than CBO's, mainly because of OMB's estimate of a deeper deficit for the year, and its assumptions of higher interest rate for the previous year. The differences become smaller over time, totaling just $2 billion for the 5-year period, mainly due to OMB's lower interest rate assumptions.

Deficit

OMB anticipates a larger deficit for fiscal year 2004 than CBO, but a smaller one for 2005. For fiscal year 2006, the OMB baseline projects a small surplus of $5 billion, while CBO's estimates a marginal deficit of $2 billion. For fiscal years 2004-2008, OMB's deficit estimate is $42 billion greater than CBO's.

Again, these are baseline estimates. The figures projected in the President's budget request for fiscal year 2004 vary from the baseline because the budget assumes various proposals that are not assumed in the baseline.

Table 4: Comparison of OMB and CBO Baselines

	OMB		CBO		Difference (OMB minus CBO)	
	2004	2004-2008	2004	2004-2008	2004	2004-2008
Revenue	2,031	11,680	2,054	11,802	-23	-121
Discretionary Spending	795	4,138	806	4,195	-11	-57
Mandatory Spending	1,221	6,660	1,218	6,684	4	-24
Net Interest	173	996	165	995	9	2
Deficit(-)	-158	-114	-134	-72	-24	-42

Sources: Office of Management and Budget, Congressional Budget Office

THE PRESIDENT'S 'GROWTH AND JOBS' PLAN
(REVENUE)

THE OVERALL GROWTH PLAN

The President's budget includes a "growth and jobs plan to strengthen the American economy." The emphasis in on promoting long-term, sustained growth in the economy and in jobs, not just near-term "stimulus."

The President's plan – with a budget impact of $359 billion over 5 years, and $615 billion over 10 years – is mainly oriented toward personal income tax reductions, including the following:

- Advancing the scheduled income tax rate cuts enacted in 2001.
- Accelerating the scheduled reduction in the marriage penalty.
- Accelerating the increase in child tax credits.
- Eliminating the double taxation of personal dividend income.
- Holding harmless taxpayers affected by the alternative minimum tax.

The plan also includes additional investment incentives for small businesses, by increasing the allowable expensing of equipment from $25,000 to $75,000.

The President's plan further calls for the creation of Personal Re-employment Accounts that would provide unemployed workers with funds for job training, child care, transportation, or other expenses associated with finding a job – while also providing incentives for individuals to find jobs as quickly as possible. (The President called for extending unemployment insurance benefits – which was passed on the first day of the new Congress.)

The components of the President's growth plan taken together have budget effects (but not including debt service) of $31 billion in the current fiscal year (2003) and $615 billion over 2004-13.

A significant portion of the lower taxes for the reduced tax liability for calendar year 2003 actually will occur in fiscal year 2004. As a result, the fiscal year 2004 budget effect will be much larger, at $111 billion. (See later discussion for a detailed description full set of the administration's tax proposals, which total $1.3 trillion over 2004-2013. Table 2 on the next page shows the budget effects by component is presented below.)

These budget effects are based on "static" estimates that do not account for any potential beneficial feedback effects from improved performance of the economy. "Dynamic" estimates, incorporating beneficial feedbacks, could show lower budget effects than those of the static estimates presented in the table, especially in the first years of the projection period. Under a recent House rule, the Joint Committee on Taxation must prepare a "macroeconomic impact analysis," an estimate of the impact on macroeconomic output, employment, capital stock, and tax revenues. The Council of Economic of Economic Advisers has estimated that the effect of the President's growth plan on the budget over the first 5 years – 2003-2007 – would be roughly cut in half if the effect of faster GDP growth on tax revenues were included in determining the budget effects.

For these beneficial effects to occur, the Federal Reserve must "accommodate" the fiscal policy choices through monetary policy. That is, if the Federal Reserve raised interest rates in response to the growth policy to keep inflation from rising, the beneficial macroeconomic effects would not be as large. Fed Chairman Greenspan will be a key player in determining the perceived success of any of the plans. It is not clear at this time the extent to which the Joint Committee on Taxation would incorporate favorable assumptions about Federal Reserve policy in any dynamic estimates or analysis they would produce.

NARRATIVE DETAIL OF THE PRESIDENT'S TAX PROPOSALS

Focus on Economic Growth

As noted, the President's growth plan reduces revenue (compared with baseline projections) by $359 billion through 2008. Other revenue reductions in the President's budget come from providing tax incentives to encourage the purchase of health insurance ($17 billion), charitable giving ($9.4 billion), energy production and conservation ($5.2 billion), affordable single family housing development ($2.5 billion), environmental protection ($1.5 billion), and better education ($1.2 billion). Reform of unemployment insurance financing reduces Federal revenue $7.9 billion over the next 5 years. In addition, the permanent extension of the R&D tax credit reduces receipts by $22.9 billion over the 2004-2008 period, while permanent repeal of the death tax reduces receipts by $5.7 billion.

Finally, a temporary extension of alternative minimum tax [AMT] relief for individuals through 2006 reduces revenues by $17.9 billion. The President's proposal to expand tax-free savings opportunities increases revenues $14.8 billion between 2004 and 2008 by inducing people to cash out of existing taxable savings plans.

This package includes $31 billion in immediate tax relief over the next 9 months with $359.5 billion in additional tax relief over the next 5 years (2004-2008), and $255.1 billion more the 5 years after that (2009-2013). This tax relief will increase consumer spending and individual and business investment now and sustain these higher levels over the long-term. The seven major components of the President's Economic Growth Package are the following.

Table 5: Effects of the President's Proposals on Revenue
(in millions of dollars)

	2003	2004	2004-2008	2004-2013
Economic Growth Package				
Accelerate 10-Percent Bracket	-978	-7,782	-30,781	-47,194
Accelerate Income Tax Rate Cuts	-5,808	-35,693	-58,102	-58,102
Accelerate Marriage Penalty Relief	-2,776	-27,134	-54,786	-55,210
Accelerate Child Tax Credit Increase	-13,527	-5,060	-41,363	-53,306
Eliminate Double-Taxation of Corporate Earnings	-3,801	-24,874	-140,232	-360,324
Increase Small-Business Expensing	-1,023	-1,652	-8,372	-14,583
Alternate Minimum Tax Relief	-3,141	-8,534	-25,818	-25,818
Subtotal: Economic Growth Package	-31,054	-110,729	-359,454	-614,537
Tax Incentives	-517	-3,865	-43,765	-107,290
Simplification of Tax Laws	1,379	10,308	13,220	-1,649
Extension of Expiring Provisions	-595	-4,838	-52,989	-588,477
Other Proposals	–	–	1,740	4,953
Total Receipts Proposals	-30,787	-109,124	-441,248	-1,307,000

SOURCE: OMB

- **Acceleration of the 10-percent Individual Income Tax Bracket Expansion:** The expansion of the 10-percent bracket scheduled for 2008 is accelerated to 2003, and is indexed for inflation beginning in 2004. The endpoint of the 10-percent tax bracket increases from $12,000 of taxable income to $14,000 for married couples and from $6,000 to $7,000 for single taxpayers. This expansion immediately benefits married taxpayers with taxable income of $12,000 and above, and single taxpayers with taxable income of $6,000 and above.

- **Acceleration of Individual Income Tax Rate Reduction:** The reduction in income tax rates in excess of 15-percent, scheduled for 2004 and 2006, are immediately moved up to 2003, immediately resulting in new rates of 25 percent (instead of 27 percent), 28 percent (instead of 30 percent), 33 percent (instead of 35 percent), and 35 percent (instead of 38.6 percent). These reductions immediately benefit married couples with taxable income of $47,450 and above, and single taxpayers with taxable income of $28,400 and above.

- **Acceleration of Marriage Penalty Relief:** This is an increase in the standard deduction for married couples to double the amount of the standard deduction for single taxpayers in 2003. The "width" of the 15-percent tax bracket for married couples is increased to twice the "width" for single taxpayers in 2003. These provisions were scheduled to phase-in over the period between 2005 and 2009. These reductions immediately benefit married couples who claim the standard deduction, or who have taxable income of $47,450 and above.

- **Acceleration of Child Tax Credit Increase:** The amount of the child tax credit is increased to $1,000 in 2003 (from $600), accelerating a scheduled phase-in between 2005 and 2010. In 2003, the increased amount of the child tax credit will be paid in advance beginning in July 2003 on the basis of information on the taxpayer's 2002 tax return filed in 2003. Advanced payments will be made in a manner similar to the advance payment checks that were issued in 2001 to reflect the new 10-percent tax bracket.

- **Alternative Minimum Tax Relief to Individuals:** To ensure that the benefits from the acceleration of the tax reductions for individual taxpayers proposed by the President are not reduced by the Alternative Minimum Tax [AMT], the AMT exemption amount is increased by $8,000 for married taxpayers, and by $4,000 for single taxpayers in 2003 through 2005.

- **Small-Business Expensing Increase for New Investment:** The amount of investment that may be immediately deducted by small businesses is increased from $25,000 to $75,000 beginning in 2003. The amount of investment qualifying for this immediate deduction begins to phase-out for small businesses with investments in excess of $325,000 (increased from $200,000). Both parameters are indexed for inflation beginning in 2004.

- **Elimination of Double Taxation of Corporate Earnings:** Dividends paid by corporations to individuals are excluded from taxable income when paid out of previously taxed corporate income beginning in 2003. Dividends paid by corporations in excess of previously taxed corporate income are still included in taxable income. This provision eliminates the double taxation of corporate dividends.

The President's growth plan is progressive. The biggest percentage reduction in individual income taxes is for taxpayers making between $30,000 and $40,000. Their reduction in taxes is more than 20 percent. Next are taxpayers with less than $30,000 in income; their individual income taxes are reduced 17 percent. Taxpayers making $40,000-$50,000 will see a 14.5-percent tax cut.

Taxpayers with incomes greater than $100,000 get the smallest percentage change in their individual income taxes at just over 11 percent.

As a result, taxpayers making up to $50,000 pay a smaller share of total individual income taxes under the President's Economic Growth Package than before (2.9 percent vs. 3.8 percent). Taxpayers making more than $100,000 pay more (73.3 percent vs. 72.4 percent). Taxpayers making between $50,000 and $100,000 pay the same (23.7 percent).

Other Fiscal Year 2004 Revenue Proposals

- **Provide Incentives For Charitable Giving:** These proposals would allow deductions for non-itemizers; permit tax-free withdrawals from IRA accounts; expand and increase the Enhanced Charitable Deduction for Contributions of Food Inventory; reform the excise tax based on the investment income of private foundations; modify tax on unrelated business taxable income of charitable remainder trusts; modify basis adjustment to stock of

S Corporations contributing appreciated property; repeal the limitation on qualified 501(c)(3) bonds; and repeal restrictions on the use of qualified 501(c)(3) bonds for residential rental property. (Revenue effect: -$303 million in 2003; -$2.1 billion in 2004; -$9.4 billion during 2004-2008; -$20.3 billion during 2004-2013.)

- **Strengthen and Reform Education:** These proposals would provide refundable tax credits for private school costs of students who choose to leave failing public schools, and allow teachers to deduct out-of-pocket classroom expenses. (Budget effect: No revenue effect in 2003; -$36 million in 2004; -$1.2 billion during 2004-2008; -$2.5 billion during 2004-2013. The refundable tax credit also will require $213 million in 2004 mandatory outlays; $3.2 billion in 2004-2008 mandatory outlays; and $3.6 billion in 2004-2013 mandatory outlays.)

- **Invest In Health Care:** The budget proposes a refundable tax credit for the purchase of health insurance; an above-the-line deduction for long-term care insurance premiums; up to $500 in unused benefits in a Health Flexible Spending Arrangement to be carried forward to the next year; additional choice with regard to unused benefits in a Health Flexible Spending Arrangement; permanent extension and reform of Archer Medical Savings Accounts; and an additional personal exemption to home caretakers of family members. (Budget effect: No revenue effect in 2003; -$918 million in 2004; -$17.0 billion during 2004-2008; -$47.8 billion during 2004-2013. The refundable tax credit above will also require no mandatory outlays in 2003 or 2004; $30.8 billion in 2004-2008 mandatory outlays and $87.6 billion in 2004-2013 mandatory outlays.)

- **Encourage Telecommuting:** This would exclude from income the value of employer-provided computers, software, and peripherals. (Revenue effect: No effect in 2003; -$35 million in 2004; -$249 million during 2004-2008; -$554 million during 2004-2013.)

- **Increase Housing Opportunities:** The budget would provide tax credits for developers of affordable single-family housing. (Revenue effect: No effect in 2003; -$7 million in 2004; -$2.5 billion during 2004-2008; -$16.1 billion during 2004-2013.)

- **Encourage Savings:** The budget also proposes establishing Individual Development Accounts [IDAs]. (Revenue effect: No effect in 2003-04; -$1.0 billion in 2004-08; -$1.3 billion in 2004-13.)

- **Protect The Environment:** The President's plan calls for permanently extending expensing of brownfields remediation costs, and excluding 50 percent of gains from the sale of property for conservation purposes. (Revenue effect: No effect in 2003; -$206 million in 2004; -$1.4 billion during 2004-2008; -$2.9 billion during 2004-2013.)

- **Increase Energy Production And Promote Energy Conservation:** Proposals in this group would extend and modify the tax credit for producing electricity from certain sources; modify treatment of Nuclear Decommissioning Funds; provide excise tax exemption for ethanol; and provide tax credits for: residential solar energy systems, the purchase of certain hybrid and fuel cell vehicles, energy produced from landfill gas, and combined heat and power property. (Revenue effect: -$236 million in 2003; -$775 million in 2004; -$5.2 billion during 2004-2008; -$8.0 billion during 2004-2013.)

- **Promote Trade:** The budget calls for implementing free trade agreements with Chile and Singapore. (Revenue effect: No effect in 2003; -$25 million in 2004; -$316 million during 2004-2008; -$913 million during 2004-2013.)

- **Reform Unemployment Insurance:** The budget also would adjust unemployment insurance administrative financing. (Revenue effect: No effect in 2003 or 2004; -$7.9 billion during 2004-2008; -$13.4 billion during 2004-2013.)

- **Simplify Tax Laws:** These proposals would expand tax-free savings opportunities, consolidate employer-based savings accounts, improve adoption tax provisions, and establish uniform definition of a qualifying child. (Revenue effect: +1.4 billion in 2003; +10.3 billion in 2004; +13.2billion during 2004-2008; -$1.7 billion during 2004-2013.)

- **Temporary Extensions:** These proposals include minimum tax relief for individuals; net operating loss offset of 100 percent of AMTI; combined work opportunity/welfare-to-work tax credit; deduction for corporate donations of computer technology; Washington, DC tax incentives; authority to issue Qualified Zone Academy Bonds; abandoned mine reclamation fees; and IRS user fees. (Revenue effect: -$639 million in 2003; -$3.4 billion in 2004; -$23.9 billion in 2004-08; -$21.6 billion in 2004-13.)

- **Permanent Extensions:** These proposals would permanently extend marginal individual income tax rate reductions expiring in 2010; child tax credit expiring in 2010; marriage penalty relief expiring in 2010; education incentives expiring in 2010; repeal of estate and generation-skipping transfer taxes and modification of gift taxes expiring in 2010; modifications of individual retirement accounts and pension plans expiring in 2010; and other incentives for families and children expiring in 2010; the research and experimentation tax credit expiring in 2004; and suspension of disallowance of certain deductions of mutual life insurance companies. (Budget effect: Revenue effect of +$44 million in 2003; -$1.4 billion in 2004; -$29.1 billion during 2004-2008; -$566.8 billion during 2004-2013. Child credit and marriage penalty relief extension will also require $24.5 billion in 2004-2013 mandatory outlays.)

Table 6: The President's Budget, Revenue
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Total Revenue	1,836.218	1,922.025	2,135.188	2,263.159	2,398.054	2,520.923	4.7	6.5
On Budget	1,304.653	1,365.857	1,545.685	1,648.387	1,753.610	1,847.731	4.7	7.2
Off Budget	531.565	556.168	589.503	614.772	644.444	673.192	4.7	4.8

Source: Office of Management and Budget. [a] Administration request.

NATIONAL DEFENSE
(FUNCTION 050)

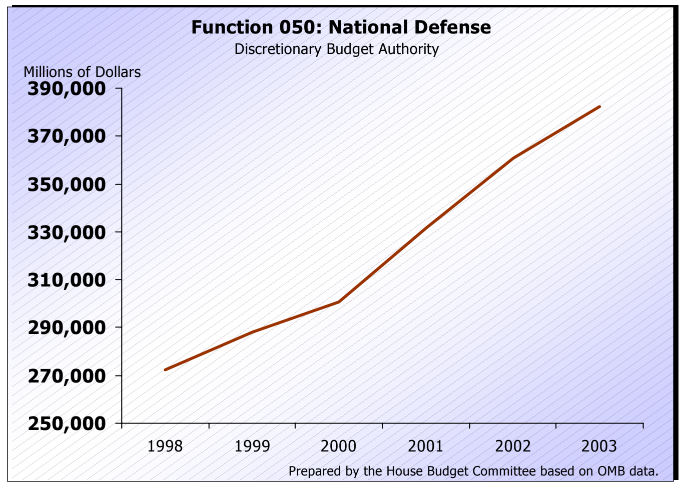
SUMMARY

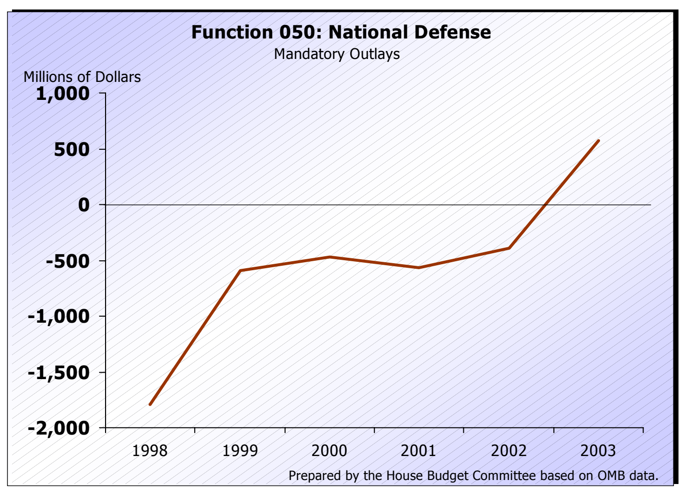
The National Defense function (Function 050) includes funds to develop, maintain, and equip the military forces of the United States. More than 95 percent of the funding in this function goes to Department of Defense [DOD] military activities. The function includes pay and benefits for military and civilian personnel; research, development, testing, and evaluation; procurement of weapon systems; military construction and family housing; and operations and maintenance of the defense establishment. The remaining funding in the function is applied to atomic energy defense activities of the Department of Energy, and other defense-related activities.

For fiscal year 2004, the President proposes $399.7 billion in budget authority [BA] for Function 050, a 4.4-percent increase over the fiscal year 2003 appropriated level. Outlays are estimated at $390.4 billion, an increase of 3.8 percent over the prior year. If the President's proposed fiscal year 2004 budget were adopted, BA in Function 050 will have increased at an average annual rate of 6.5 percent since fiscal year 1999.

The President's fiscal year 2004 National Defense budget is intended as part of a multiyear plan to enable the military both to fight the war against terrorism now, and to transform DOD to counter unconventional threats in the future. The successful strike against terrorists in Yemen by an armed Predator drone last November may be a harbinger of the kinds of transformational technologies under consideration.

It should be noted that the President's proposed budget does not request funds for a possible war against Iraq. Considering the many variables that figure in such an estimate, even a placeholder figure might well be misleading. If required, the President will ask for such funding in a future supplemental request.





KEY COMPONENTS

Principal components of the President's budget proposal in this function include the following:

- **Military Personnel:** The budget requests $98.6 billion for pay and benefits, an increase of 5.6

percent. It funds a range of military pay increases from 2.0 percent up to 6.5 percent, targeted by rank and years of service. This initiative is intended to retain DOD’s most experienced personnel.

The budget also reduces out-of-pocket housing costs from 7.5 percent to 3.5 percent for personnel living in private housing. These costs are schedule to drop to zero in fiscal year 2005.

- **Operations and Maintenance [O&M]:** The President proposes $117.0 billion for fiscal year 2004, an increase of $3.4 billion over the previous year. Operations and maintenance contains funding for training and education, operations, and support of the military forces; maintenance of fielded weapon systems and equipment; and operation and maintenance of facilities.

  It also includes funding of pay for DOD civilian personnel. (Note: the administration proposes to move the Defense Health Program, Inspector General, and Drug Interdiction accounts from O&M, so budget totals for O&M are not consistent with prior years.)

- **Procurement:** The fiscal year 2004 budget requests $72.7 billion. If enacted, this would be the highest amount for this activity (in current dollars) since fiscal year 1990. Procurement contains funding for the purchase and initial fielding of weapon systems, aircraft, ships, vehicles, ammunition, and other combat-related systems.

- **Research and Development:** The budget proposes $61.8 billion for research, development, test, and evaluation – the seed money for the next generation of weapons. This represents a $5.0-billion increase over the current year’s appropriated level. The request is the largest ever.

- **Homeland Security:** The defense budget includes $6.7 billion that the Office of Management and Budget classifies as Homeland Security-related spending. Funding provides for initiatives to include intrusion detection, blast mitigation, chemical and biological detection, personal protection gear, harbor patrol, and measures to restrict base access.

- **Missile Defense:** The President has asked for $9.1 billion for the Missile Defense Agency, a $1.5-billion increase over the previous year. The program will focus on fielding an initial capability in 2004 and 2005; this would provide a modest defense against North Korean missiles.

- **Health Care:** The budget provides full funding of health benefits for active duty members, retirees, and their dependents, including the expansion of military health care mandated by the Fiscal Year 2001 Defense Authorization Act. The request assumes a total of $27.2 billion in expenditures for health care, including $16.2 billion to support the direct health care system, and $10.8 billion for contract care (some of these expenditures take place outside the defense budget).

- **Special Operations Forces:** Green Berets and other elite units that play a crucial role in the war against terrorism are budgeted at $4.52 billion, a 47-percent increase over the current year funding level.

- **Unmanned Vehicles [UVs]:** A total of $1.4 billion will be used to buy all types of UVs. This includes $250 million for the Hellfire Missile-carrying Predator, which debuted successfully in Afghanistan and Yemen. A proposed $610 million will continue production of the long-range Global Hawk, which also appeared in Afghanistan.

- **C4ISR [Command Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance]:** The President gives high priority to developing a constellation of satellites that would track moving vehicles on the ground as well as aircraft. This space-based radar is funded at $299 million in the proposal.

  Other priorities include laser satellite communications ($452 million) and cryptologic (code-breaking) modernization ($416 million).

- **SSGN Conversion:** The budget requests $1.2 billion to convert four Trident ballistic missile submarines to submarines that are each capable of carrying at least 150 Tomahawk cruise missiles and a contingent of Special Operations Forces.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report).

The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has a number of serious flaws.

Human Capital . . . . Yellow
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Red
Budget and Performance Integration . . . . Yellow
Privatization of Military Housing . . . . Yellow

Program Assessment Rating Tool [PART]

PART (more fully discussed in a separate section of this report) uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Air Combat Program . . . . Moderately Effective
Airlift Program . . . . Moderately Effective
Basic Research . . . . Effective
Chemical Demilitarization . . . . Ineffective
Comm. Infrastructure . . . . Results Not Demonstrated
Defense Health . . . . Adequate
Energy Conservation Improvement . . . . Effective
Facilities Sustainment, ... Adequate
Restoration, Modernization, and Demolition
Housing . . . . Moderately Effective
Missile Defense . . . . Moderately Effective
Recruiting . . . . Moderately Effective
Shipbuilding . . . . Adequate

Table 7: The President's Budget, National Defense (Function 050)
(dollars in millions)

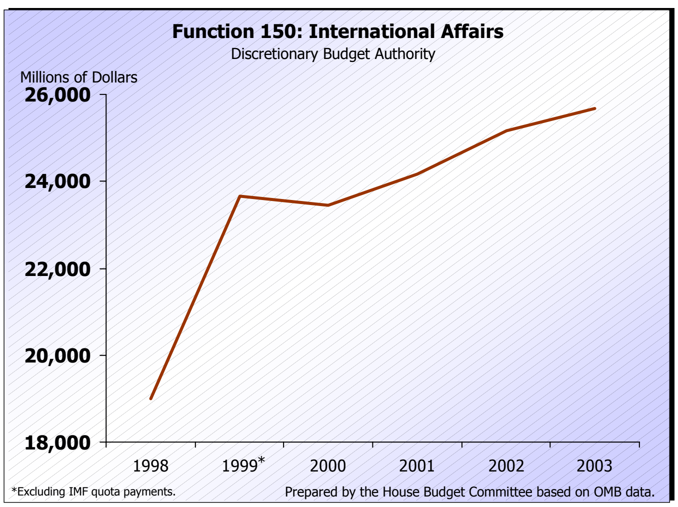
	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	382,681	399,683	420,019	440,044	460,309	480,747	4.4	4.7
Outlays	376,286	390,419	410,092	423,192	436,437	460,546	3.8	4.2
Discretionary								
BA	382,225	399,181	419,623	439,740	459,999	480,433	4.4	4.7
Outlays	375,714	389,746	409,737	422,808	436,164	460,190	3.8	4.2
Mandatory								
BA	456	502	396	304	310	314	10.1	-11.1
Outlays	572	673	355	384	273	356	17.7	-14.7

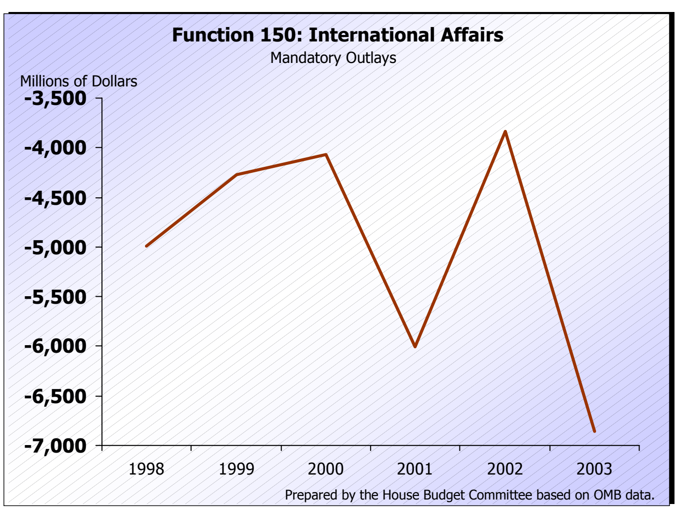
Source: Office of Management and Budget. [a] Administration request.

INTERNATIONAL AFFAIRS
(FUNCTION 150)

SUMMARY

As part of the Global War on Terrorism, the Department of State and international assistance programs play a vital role in maintaining and expanding support of the international coalition against terrorism. Funds distributed through the International Affairs function provide for international development and humanitarian assistance; international security assistance; the conduct of foreign affairs; foreign information and exchange activities; and international financial programs. The major departments and agencies in this function include the Department of State, the Department of the Treasury, and the United States Agency for International Development [USAID].





The administration's fiscal year 2004 proposal for International Affairs calls for $28.5 billion in discretionary budget authority [BA] and $28.1 billion in outlays – a $2.9-billion, or 11.2-percent increase over the previous year's level. If the President's proposed fiscal year 2004 levels are adopted, the rate of spending growth over the period of fiscal years 1999-2004 would be an average of 5 percent a year. (Note: This figure excludes the one-time provision in fiscal year 1999 of $18 billion in BA to the International Monetary Fund [IMF] for the United States' capital subscription [quota] payment, and for the IMF's New Arrangements to Borrow).

KEY COMPONENTS

Significant components of the President's budget request for this function include the following:

- **Global War on Terrorism Assistance:** The budget includes approximately $2.3 billion for assistance to countries that have joined the Global War on Terrorism, including: $900 million in Economic Support Fund [ESF] for frontline states, such as Afghanistan ($150 million), Jordan ($250 million), Pakistan ($200 million) and Turkey ($200 million); $591 million for the Foreign Military Financing [FMF] Program, such as Jordan ($206 million), Oman ($25 million), Pakistan ($75 million), the Philippines ($17 million), Turkey ($50 million) and Yemen ($15 million); $106 million for the Anti-Terrorism Assistance [ATA] program.

- **Afghanistan:** The President proposes $658 million in assistance for Afghanistan, more than double the

$297 million pledged at the Tokyo Conference in 2002. This includes $150 million in FMF funding to train and equip the Afghan National Army and $70 million to rebuild the essential Kabul-Kandahar-Herat Highway.

- **Other Foreign Military Financing:** The total fiscal year 2004 FMF request is for $4.4 billion, including Bahrain ($25 million), Colombia ($110 million), Ecuador ($15 million), Egypt ($1.3 billion), Georgia ($10 million), Israel ($2.2 billion), Kenya ($6.5 million), Macedonia ($10 million), Nigeria ($4 million) and South Africa ($6 million).

- **U.S. Emergency Fund for Complex Foreign Crises:** The President proposes creating a new $100 million fund that can be drawn upon to respond to unforeseen foreign crises, including territorial disputes, armed ethnic and civil conflict, and acts of ethnic cleansing, mass killing or genocide.

- **Andean Counter-drug Initiative:** The administration requests $463 million for the Andean Counter-drug Initiative to support the Colombian government's campaign against terrorists and the drug trade that fuels their activities.

- **Nonproliferation:** Efforts to diminish the threat of the proliferation of nuclear and biological weapons are expanded, as are measures to train foreign law enforcement and armed services to improve their counter-terrorism capabilities. The President requests $1 billion for Department of State, Energy, and Defense programs that support the G-8 Global Partnership Against the Spread of Weapons and Material of Mass Destruction – a major effort on the part of the United States and other G-8 countries to raise $20 billion over the next 10 years for projects pertaining to disarmament, nonproliferation, counter-terrorism and nuclear safety.

- **Embassy Security:** The budget includes $1.5 billion for embassy security, construction, and maintenance, an increase of $208 million over 2003.

- **The Emergency Plan for AIDS Relief:** The President's budget includes $2 billion as the first installment toward the Emergency Plan for AIDS Relief, a 5-year, $15-billion initiative to turn the tide in the global effort to combat the HIV/AIDS pandemic. This initiative – funded through several international affairs accounts in USAID, the Department of Health and Human Services, and the Centers for Disease Control – virtually triples U.S. funding to fight the international AIDS pandemic, including: $450 million for the Global AIDS Initiative to help the most afflicted countries in Africa and the Caribbean; $200 million for the Global Fund to Fight AIDS, Tuberculosis and Malaria ($100 million in USAID and $100 million in HHS), raising the total U.S. pledge to $700 million, or 29 percent of total pledges; $100 million for the International Mother and Child HIV Prevention Initiative for a total funding level of $300 million ($150 million in USAID and $150 million in HHS funds).

- **Famine Fund:** The budget includes a proposal to create a new $200 million fund with flexible authority to provide emergency food aid and grants.

- **Millennium Challenge Account:** The President proposes creating a new government corporation (the Millennium Challenge Corporation) to administer a $1.3 billion fund designed to promote just governance and sound free-market economic policies in International Development Association-eligible countries (with per capita incomes below $1,435 per annum).

- **International Financial Institutions:** The budget increases funding for international financial institutions by $118 million, or 8.2 percent. These institutions include the World Bank, its associated regional banks, and the International Development Association.

- **Debt Restructuring:** The budget requests an additional $75 million for the Trust Fund for Heavily Indebted Poor Countries [HIPC], $300 million to fund bilateral debt reduction for the Democratic Republic of Congo (formerly called Zaire), and $20 million for the Treasury Debt Restructuring account for debt reduction under the Tropical Forest Conservation Act.

- **Peace Corps:** The budget increases funding for the Peace Corps by $42 million, or 13.2 percent.

- **Export-Import Bank:** The loan subsidy for the Export-Import Bank is reduced by $633 million, or 106 percent. The reduction will not, however, result in a reduction in Export-Import Bank lending. This is because OMB and the Export-Import Bank have developed a new methodology of risk assessment that more accurately estimates the cost to the U.S. Government of a country's default; thus even with reduced appropriations, Export-Import Bank lending is expected to be $14.6 billion, or $3.1 billion or 27 percent greater than in fiscal year 2003.

- **Global Broadcasting:** The budget also strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East, by increasing funding for International Broadcasting Operations by $56.5 million, or 11.1 percent.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report). The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has serious flaws.

Department of State

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Red
Budget and Performance Integration . . . . Red
A Rightsized Overseas Presence . . . . Red

U.S. Agency for International Development

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Red
Budget and Performance Integration . . . . Red
Reform of Food Aid Programs . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable.

Below is a summary of the administration's conclusions concerning selected international programs and activities.

Department of State

Anti-Terrorism Assistance . . . . Moderately Effective
Capital Security Construction Program . . . . Moderately Effective
Military Assistance to New NATO and NATO Aspirant Nations . . . . . . Moderately Effective
Visa and Consular Services . . . . . . Moderately Effective
Refugee Admissions to the U.S. . . . . Adequate
Refugees to Israel . . . . Adequate
Education and Cultural Exchange Program in Near East, and South Asia . . . . . Results Not Demonstrated
Peacekeeping Operations in East Timor and OSCE . . . . Results Not Demonstrated
Security Assistance to Sub-Saharan Africa . . . . Results Not Demonstrated

Department of the Treasury

International Development Association . . . . . . Adequate
Treasury Department's Technical Assistance . . . . . . Results Not Demonstrated

U.S. Agency for International Development

Family Planning . . . . Moderately Effective
International Development Association . . . . . . Adequate

Food Aid . . . . Adequate
Climate Change . . . . Adequate

Broadcasting Board of Governors

Broadcasting to Near East and South Asia . . . . Results Not Demonstrated

Export-Import Bank

Export-Import Bank Long-Term Guarantees . . . . Moderately Effective

Overseas Private Investment Corporation

Overseas Private Investment Corporation Finance Program . . . . Results Not Demonstrated

Table 8: The President's Budget, International Affairs (Function 150)
(dollars in millions)

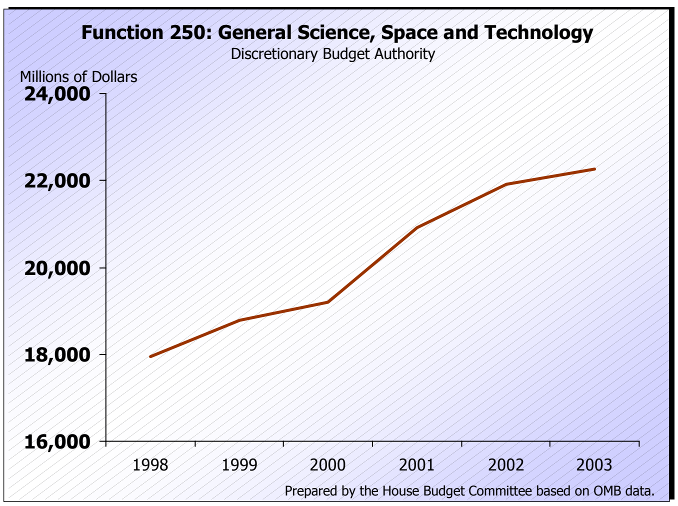
	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	20,511	23,791	28,049	30,069	32,117	33,324	16.0	10.3
Outlays	20,735	25,622	26,068	27,483	29,171	30,656	23.6	8.4
Discretionary								
BA	25,675	28,580	29,962	31,511	32,790	33,787	11.3	5.7
Outlays	27,589	28,069	28,309	29,769	31,271	32,591	1.7	3.4
Mandatory								
BA	-5,164	-4,789	-1,913	-902	-673	-463	7.3	35.4
Outlays	-6,854	-2,447	-2,241	-2,286	-2,100	-1,935	64.3	17.3

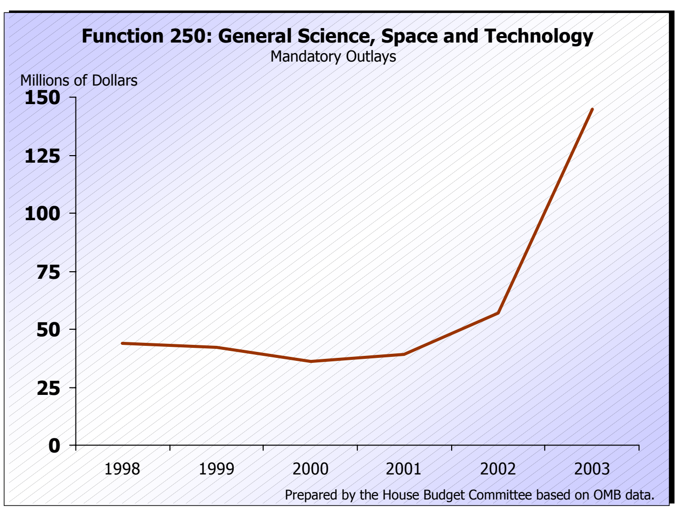
Source: Office of Management and Budget. [a]Administration request.

GENERAL SCIENCE, SPACE, AND TECHNOLOGY
(FUNCTION 250)

SUMMARY

The largest component of this function – about two-thirds of total spending – is for the space flight, research, and supporting activities of the National Aeronautics and Space Administration [NASA]. The function also reflects general science funding, including the budgets for the National Science Foundation [NSF], and the fundamental science programs of the Department of Energy [DOE].





Under the President's fiscal year 2004 budget request, budget authority for Function 250 is increased from $22.36 billion to $23.5 billion, a 5.1-percent increase in budget authority from fiscal year 2003. Outlays for 2004 increase from $21.699 billion in fiscal year 2003 to $22.851 billion for fiscal year 2004, an increase of $1.152 billion, or 5.3-percent.

If the President's proposal were adopted, budget authority would increase from $18.857 billion in 1999 to $23.5 billion in 2004, an average annual increase of 3.9-percent. Outlays would increase from $18.125 billion in 1999 to $23.5 billion in 2004, an average annual increase of 5.3-percent.

KEY COMPONENTS

- **National Science Foundation [NSF]:** The President's budget provides $5.5 billion, a $453-million, or 9-percent, increase from fiscal year 2003. The budget includes $4.1 billion for research and related activities. Of this total, $1.1 billion represents 40 percent of the Federal funding for university-based research in math and physical sciences. The NSF budget also includes $938 million to support education and research in all science, technology engineering, and mathematics disciplines. The research equipment and facilities construction part of NSF's budget receives $202 million, a 60.2-percent increase over 2003.

  The increase in equipment and facilities construction includes $50 million for the Atacama Large Millimeter Array; $45 million for the EarthScope; $60 million for the IceCube Neutrino Observatory; and $25 million for the High Performance Instrumental Airborne Platform for Environmental Research.

- **NASA:** As presented in the President's submission, the budget provides $14.5 billion for NASA in function 250. Another $978 million for NASA science, aeronautics, and technology is included in Function 400 (Transportation), bringing NASA's total to $15.5 billion, $469 million or a 3.1-percent increase over fiscal year 2003. Starting with 2004, NASA programs include the full cost of civil servant salaries and other costs previously included in other accounts in the NASA budget. Because of this accounting change, it is impossible to be precise about how these full costs would have been distributed in previous years budgets.

This year NASA based its request on its recently completed Strategic Plan. NASA's goal is to transform itself into better supporting science and research driven exploration of space. (Note: The NASA budget, as presented in the President's submission, was developed before the Columbia incident, and does not reflect any changes that might be sought in the wake of that episode.)

- **Space Science:** The President's budget requests $4 billion for Space Science. This includes Solar System Exploration ($1.35 billion); Mars Exploration ($570 million); Astronomical Search for Origins ($877 million); Structural and Evolution of Life ($432 million); and Sun-Earth Connections ($770 million).

  The President's budget proposes $279 million in 2004 and $3 billion over 5 years, for Project Prometheus, which will provide nuclear power and propulsion for science and orbital capabilities. The project includes the first nuclear-electric space mission, called the Jupiter Icy Moons Orbiter.

  The President's budget proposes $31 million in 2004, and $233 million over 5 years, for Orbital Communications. This program offers the potential for many orders of magnitude improvement in communication of data. The first planned demonstration of this program will be a 2009 mission around Mars. This program could eventually replace the current Deep Space Network.

- **Earth Science**: The President's budget requests $1.55 billion for Earth Science. This includes Earth Systems Science ($1.47 billion), and Earth Science Applications ($75 million). In addition, the budget requests $26 million in 2004, and $72 million over 5 years, for accelerating the Climate Change Research Initiative. The intent is to speed the evaluation of non-carbon dioxide impact on climate change.

- **Biological and Physical Research:** The President's budget requests $973 million for Biological and Physical Research. This includes Biological Science Research ($359 million); Physical Science Research ($ 353 million); and Commercial Research and Support ($261 million). In addition, for Bioastronautics Research the President's budget provides $210 million to expand planned ground research in countermeasures, and fund the National Space Biomedical Research Institute and the new Human Research Initiative.

- **Space Flight Capabilities:** The President's request provides nearly half of the NASA budget or $7.782 billion for Space flight capabilities. This includes the Space Station ($1.707 billion); the Space Shuttle ($3.968 billion); Space Flight Support ($434 million); and the Space Launch Initiative ($1.065 billion).

  The Space Station funding is intended to maintain the additional funds for reserves plus funding for Node 3 and the Environmental Closed Life Support System. The Space Shuttle funding would support a flight rate of five flights a year, and provide $379 million for Space Shuttle Life Extension, a program to improve the safety and infrastructure needs to allow the Space Shuttles to fly into the next decade. (As noted above, this proposal was developed before the Columbia incident.)

  The Space Launch Initiative is intended to provide the necessary technology development, risk reductions, and systems analysis to enable NASA to decide how to develop a 2nd Generation Reusable Launch Vehicle [RLV].

- **Fundamental Science Programs of the Department of Energy:** The President requests $3.3 billion, a $47-million, or 1.4-percent increase over the 2003 request. The request includes Basic Energy Sciences ($1 billion); High Energy Physics ($738 million); Biological and Environmental Research ($500 million); and Nuclear Physics.

Table 9: The President's Budget, General Science, Space, and Technology (Function 250)
(dollars in millions)

	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	22,360	23,500	24,335	25,118	25,954	26,726	5.1	3.6
Outlays	21,699	22,851	23,808	24,735	25,439	26,220	5.3	3.9
Discretionary								
BA	22,253	23,473	24,299	25,081	25,917	26,689	5.5	3.7
Outlays	21,554	22,746	23,732	24,678	25,391	26,180	5.5	4.0
Mandatory								
BA	107	27	36	37	37	37	-78.8	-19.1
Outlays	145	105	76	57	48	40	-27.6	-22.7

Source: Office of Management and Budget. [a]Administration request.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

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Department of Energy

Human Capital . . . . Yellow
Competitive Sourcing . . . . Red
Financial Performance . . . . Yellow
Expanding E-Government . . . . Yellow
Budget and Performance Integration . . . . Red
Research and Development Investment Criteria . . . Red

National Aeronautics and Space Administration

Human Capital . . . . Yellow
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Red
Budget and Performance Integration . . . . Yellow

National Science Foundation

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Green
Expanding E-Government . . . . Green
Budget and Performance Integration . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Energy

Advanced Scientific . . . . Results Not Demonstrated
Computing Research
Basic Energy Science . . . . Results
Not Demonstrated
Biological and . . . . Results
Not Demonstrated
Environmental Research
Fusion Energy Sciences . . . . Results
Not Demonstrated

High Energy Physics . . . . Results Not Demonstrated
Nuclear Physics . . . . Results Not Demonstrated

National Aeronautics and Space Administration

Mars Exploration . . . . Effective
Space Shuttle . . . . Moderately Effective
Space Station . . . . Results Not Demonstrated

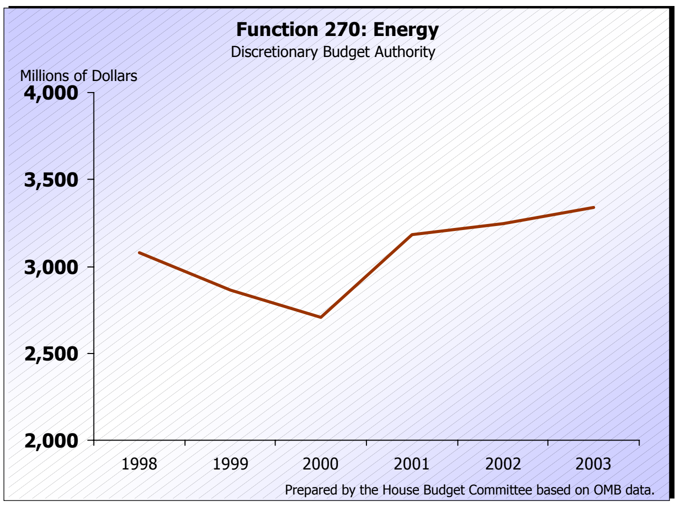
National Science Foundation

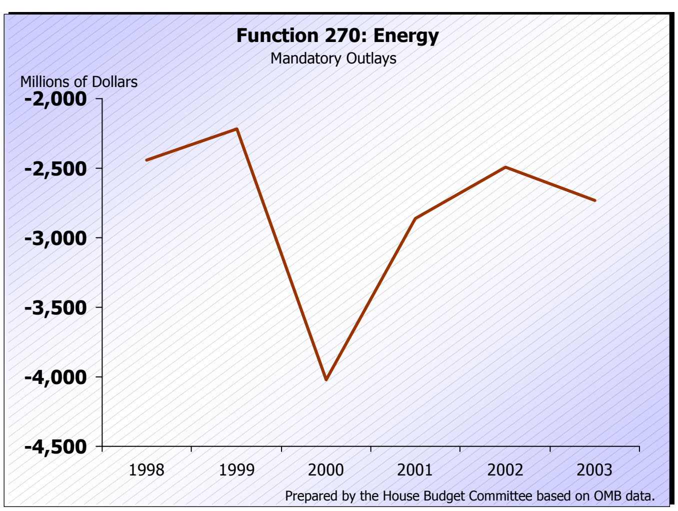
Geosciences Directorate . . . . Moderately Effective
Research Tools . . . . Effective

ENERGY
(FUNCTION 270)

SUMMARY

Function 270 includes civilian energy and environmental programs of the Department of Energy [DOE]. (It does not include DOE's national security activities – the National Nuclear Security Administration – which are in Function 050, or its basic research and science activities, which are in Function 250). Function 270 also includes the Rural Utilities Service of the Department of Agriculture, the Tennessee Valley Authority [TVA], the U.S. Enrichment Corporation, the Federal Energy Regulatory Commission and Nuclear Regulatory Commission.





Under the President's budget proposal, Function 270 [Energy] for fiscal year 2004 includes $0.9 billion in total budget authority, $651 million above the current services level. This represents an increase of $212 million, or 31.4 percent, over the 2003 level (assuming the President's proposed fiscal year 2003 levels are adopted). Total outlays of $0.9 billion also are proposed, representing an increase of $210 million, or 29.7 percent, over the 2003 level.

The apparently small totals in Function 270 come about because the mandatory spending component is negative. For discretionary spending alone, the budget actually provides a 6.7 percent increase from $3.3 billion to $3.6 billion in fiscal year 2004, and a 45-percent increase over the next 5 years. Negative spending on the mandatory side of -$2.7 billion in 2004, the same as 2003, is due to rural electrification and telecommunications loan repayments and liquidations, TVA and Power Marketing Administration electricity sales, nuclear waste disposal fees, and uranium sales and enrichment fees.

The average annual funding decline in budget authority over the past 5 years [1999-2004] for Function 270 is -2.0 percent, for which the growth in mandatory receipts (negative spending) is solely responsible. The average annual spending increase in outlays over the past 5 years is 0.1 percent, again, which the growth in receipts limited.

The budget fulfills the President's National Energy Policy recommendations to focus Federal investment on future energy solutions.

KEY COMPONENTS

- **Protecting the Homeland:** Two activities in the budget play significant roles in homeland security:

  - *Nuclear Plant Security* - $619 million is provided in fiscal year 2004 for the Nuclear Regulatory Commission to continue to review and strengthen NRC's physical facilities and information technology infrastructure. $572 million of this amount is provided by fees and receipts.

  - *Energy Security and Assurance* - Pursuant to the Homeland Security Act of 2002, the functions of the National Simulation and Analysis Center and the energy security and assurance programs of the Department of Energy are transferred to the new Department's Directorate of Information Analysis and Infrastructure Protection.

Other key priorities supported by the budget include the following:

- **Hydrogen Car:** The President's budget proposes to more than double spending on hydrogen energy R&D to $88 million in 2004 by undertaking the new FreedomFuel initiative, which will focus on hydrogen fuel production, storage and infrastructure. FreedomFuel adds to the FreedomCAR (Cooperative Automotive Research) program announced in 2002, which is focused on developing viable hydrogen fuel-cell technology for cars by 2015. This initiative replaces a low priority Clinton-Gore program consistent with the Administration's emphasis on shifting resources to reflect changing needs.

  FreedomCar and FreedomFuel replace the terminated PNGV (Partnership for a New Generation of Vehicles) program that was proposed and funded under the previous Administration in an attempt to develop and produce an 80 mpg internal combustion engine car. The real next generation of technology and most promising long-term revolution in energy use would be the widespread use of hydrogen fuel cell vehicles which would reduce U.S. oil imports (70 percent of U.S. oil consumption is transportation), benefit the economy (U.S. auto industry is 5 percent of GDP and 6.6 million jobs), and clean the air (hydrogen fuel cells produce only water as a byproduct). FreedomFuel and FreedomCAR long-range basic research activities will address the difficult technical and cost challenges faced before commercialization is possible. Hydrogen fuel cells are currently 10 times more costly than today's internal combustion engines, and hydrogen fuel is 5 times more costly to produce than gasoline. The amount of hydrogen that can currently be stored on board a vehicle must be doubled to provide a driving range comparable to today's vehicles without sacrificing cargo space. The President's budget proposes to spend more than $1.5 billion on FreedomFuel and FreedomCAR over the next 5 years.

- **Weatherization Assistance:** Consistent with the President's National Energy Policy, the budget increases conservation through the Department of Energy's Weatherization Assistance Program by $58.2 million, over 25 percent, to $288.2 million from the current 2002 level of $230 million. The funds are to help low-income families who live in poorly insulated housing or have insufficient heating or cooling systems. Weatherization grants totaled $153 million in 2001, just 2 years ago when the President took office. The budget supports weatherizing 126,000 homes in 2004, 21,000 more than 2002.

- **Coal Research:** The budget requests $321 million for the President's Coal Research Initiative – part of a plan to spend $2 billion over 10 years to reduce the environmental impact of using coal to generate electricity. The request is more than two and a half times the level annually requested for clean coal technologies in the budgets submitted to the Congress from 1995 through 2000.

- **Renewable Energy:** The $444.2 million requested for energy efficiency and renewable energy research and development [R&D] is more than a 16-percent increase over the current 2002 level of $382.7 million.

- **Nuclear Energy:** The President's nuclear energy science and technology request is over $50 million higher than last year, mainly due to increased funding for the Advanced Fuel Cycle research (to greatly reduce waste volume, heat, disposal cost and hazardous life from 300,000 years to less than 1,000 and reclaim spent fuel's valuable energy for future consumption), Generation IV Nuclear Energy Systems R&D (to develop next-generation reactor technologies), and to continue the government-industry cost-shared Nuclear Power 2010 program.

- **Yucca Mountain:** At the end of fiscal year 2002, there was $13.0 billion in the Nuclear Waste Disposal Fund. At the end of 2004, $15.5 billion is to be available. Resources will be drawn to complete work on the license application to the NRC in 2004 for Yucca Mountain construction and to develop transportation capabilities needed to initiate repository operations by 2010.

  As part of the administration's proposal to extend the discretionary spending caps, the budget proposes a separate, adjustable Yucca Mountain annual cap. The point of the adjustment is to ensure appropriations are available without converting the program to mandatory spending.

- **BPA Borrowing Authority:** The President's budget includes a mandatory spending proposal to increase the borrowing authority of the Bonneville Power Administration [BPA] by $700 million to $4.45 billion. The budget last year similarly requested a $700 million increase in BPA borrowing authority that was not enacted. The administration will pursue this proposal through in a comprehensive energy bill this year. This increase will enable BPA to finance needed expansions of its transmission facilities to accommodate increased demand for and supplies of power in the Pacific Northwest. Spending is $85 million in 2005, $430 million in 2006, and $185 million in 2006.

- **Oil Technology R&D:** Due to the maturity of the industry and activities, R&D on oil technology, such as exploration and production and reservoir life extension and management, is reduced almost 75 percent from its current 2002 level to $15 million, more than half of which is for effective environmental protection research. Gas technology R&D is likewise reduced 40 percent from 2002.

Table 10: The President's Budget, Energy (Function 270)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	675	887	1,696	1,770	1,294	2,156	31.4	26.1
Outlays	708	918	1,489	1,772	1,242	1,801	29.7	20.5
Discretionary								
BA	3,339	3,564	3,984	3,920	3,897	4,855	6.7	7.8
Outlays	3,437	3,646	3,847	3,996	3,923	4,582	6.1	5.9
Mandatory								
BA	-2,664	-2,677	-2,288	-2,150	-2,603	-2,699	0.5	0.3
Outlays	-2,729	-2,728	-2,358	-2,224	-2,681	-2,781	0.0	0.4

Source: Office of Management and Budget. [a]Administration request.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

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Department of Energy

Human Capital . . . . Yellow
Competitive Sourcing . . . . Red
Financial Performance . . . . Yellow
Expanding E-Government . . . . Yellow
Budget and Performance Integration . . . . Red
Research and Development
Investment Criteria . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary concerning selected programs and activities.

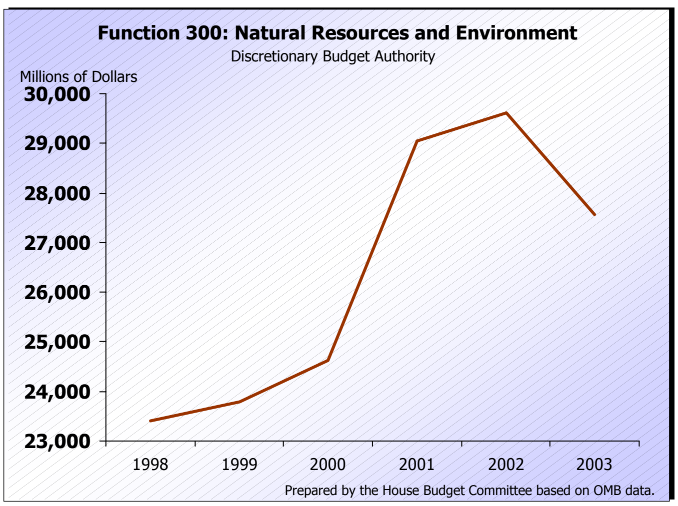
Department of Energy

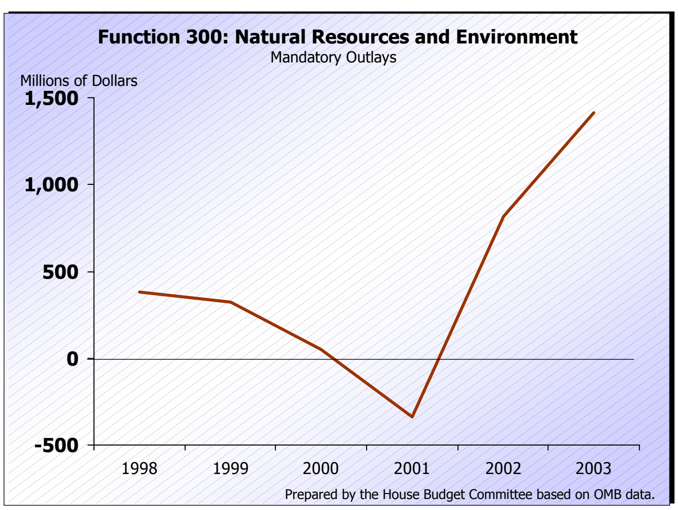
Wind Energy . . . . Moderately Effective
Gas Exploration . . . . Ineffective
and Production

NATURAL RESOURCES AND ENVIRONMENT
(FUNCTION 300)

SUMMARY

Funds distributed through this function are intended to develop, manage, and maintain the Nation's natural resources, and to promote a clean environment. Funding is provided for water resources, conservation and land management, recreational resources, pollution control and abatement, and other natural resources. The major departments and agencies in this function are the Department of Interior, including the National Park Service [NPS], the Bureau of Land Management [BLM], the Bureau of Reclamation, and the Fish and Wildlife Service [FWS]; certain agencies of the Department of Agriculture [USDA], including the Forest Service; the National Oceanic and Atmospheric Administration [NOAA] in the Department of Commerce; the Army Corps of Engineers; and the Environmental Protection Agency [EPA].





The President's budget proposal for Function 300 increases funds for natural resources and environmental programs to $30.4 billion in Budget Authority [BA] and $31.6 billion in outlays–increases above the President's 2003 budget request of 3.6 and 3.0 percent respectively. Over the past 5 years, funding for this function has grown by an average annual rate of 4.5 percent.

KEY COMPONENTS

- **NPS Deferred Maintenance Backlog:** The budget provides $706 million in funds for reducing the National Park Service's $5-billion backlog in operations and maintenance. After nearly doubling the account in last year's budget request, the 2004 budget increases funds by $45 million, or 7 percent.

- **Land and Water Conservation Fund:** The President provides full funding for the Land and Water Conservation Fund [LWCF] at $901 million. The emphasis will be for programs such as conservation easements and partnerships, which protect critical natural resources without exacerbating the multibillion-dollar maintenance backlog facing many land management agencies.

  At the same time, the budget calls for innovative alternatives – such as the Cooperative Endangered Species Conservation Fund, the North American Wetlands Conservation Fund, the Forest Legacy Program, the Forest Stewardship Program, and

Cooperative Conservation Initiative – to protect the property tax base in rural areas.

- **Cooperative Conservation Initiative:** The budget allocates $113 million in matching funds for the NPS, FWS, BLM, and other land management agencies to partner with adjacent landowners and other private citizens on resource conservation projects. This new program is intended to provide an incentive for existing agencies and localities to share responsibility for conservation projects.

- **Conservation Spending Category:** The budget provides $1.6 billion for all of the accounts under this category. Although this level falls short of the $3 billion called for under the spending cap agreement that began in fiscal year 2001, that limit expired along with other spending caps at the end of fiscal year 2002. Instead the President focuses resources on the commitment to fully fund the LWCF.

- **Land Acquisition:** The budget provides $34 million for USDA land acquisition, a reduction of 70 percent from fiscal year 2003. The request recognizes that the Federal Government already owns 30 percent of the Nation's land mass, and 60 percent of the western United States. The Forest Service also is experiencing a $13-billion maintenance backlog, making the benefits of additional land acquisition questionable.

- **Payment in Lieu of Taxes:** Payment in Lieu of Taxes [PILT] receives a 21-percent increase to $200 million in fiscal year 2004.

  The request recognizes that the Federal Government's massive consumption of land ownership in recent years has deprived rural communities of an adequate property tax base. The PILT program is an important effort to alleviate this problem in rural areas.

- **Clear Skies Initiative:** The 2004 request includes $7.7 million for the EPA's Clear Skies Initiative – a market-based program allowing utilities the option of cutting pollution or buying credits to meet emissions caps. The administration estimates this initiative will cut power emissions by 35 million tons beyond what would be attained under current law.

- **Superfund**: The budget provides $1.4 billion for the Superfund program, a 9-percent, or $117- million, increase over the 2003 budget. This funding level will enable 10 to 20 new construction starts in 2004, and a similar increase in the number of completions by 2006.

- **Clean Water State Revolving Fund:** The President's request reduces funding for the Clean Water State Revolving Fund program in 2004 by $362 million. But the budget also calls for reauthorizing this program through 2011 from its current expiration in 2005, and increasing its long-term revolving level by $800 million, or 40 percent. This will provide $4.4 billion in additional funds over 10 years to help close the $21-billion gap between current capital funding levels and future water infrastructure capital needs estimated by EPA.

- **Corps of Engineers' Construction Program:** The budget provides a high level of funding within the program's $1.4 billion for eight ongoing construction projects that are the highest priorities, and will complete 13 ongoing projects in 2004. It focuses the remaining construction funds on projects already under way, and aims to finish the $23-billion backlog of ongoing core construction work more quickly. The budget reduces the construction backlog by proposing no new discretionary starts.

- **NOAA's Climate Change Research Initiative:** Rather than opt in to the Kyoto Agreement, the President's budget provides a $17-million increase for NOAA's portion of the multiagency Climate Change Research Initiative [CCRI]. The CCRI will advance climate-modeling capabilities and climate-observation systems, with the aim of helping to more accurately determine the extent of any global warming.

- **NPS Natural Resource Challenge**: The budget proposes $76 million – a $9-million increase over last year's request. Through this program, the NPS collects data on natural resources, and then identifies and monitors key conservation benchmarks such as population changes in a critical species that best represents the ecosystem's overall health. This year's 13-percent increase will enable NPS to meet its goal by 2004 of establishing 25 of 32 monitoring networks that include every national park with significant natural resources.

- **Strengthening Scientific Review at EPA:** The President's budget funds EPA science programs at $540.9 million – an increase of $25.8 million, or 5 percent, above the 2003 request. Included in this amount are $1.2 billion in scientific research into environmental threats to children's health; a 33-percent increase in funds for the Science Advisory Board for more peer reviews; and $5 million for the STAR Fellowship program to help attract the Nation's best scientists to EPA.

- **Forest Health:** In response to the second worst forest fire season in 50 years, which killed 21 firefighters and destroyed 7 million acres of pristine forest land, the President's request provides $230 million in the Forest Service budget for the Hazardous Fuels Treatments Program.

  This program removes the amount of brush and small trees that exacerbate the risk of catastrophic fire. The $230-million funding level represents a 90-percent increase over the past 3 years. The request focuses these funds on protecting human life by dedicating 70 percent to the wildland-urban interface.

- **Corps of Engineers Operation and Maintenance Program:** The request calls for $104 million – a 60 percent increase – to strengthen security at critical dams, navigation locks, and other facilities.

- **Corps of Engineers Flood Control and Coastal Emergencies:** The budget funds this program at $70 million. Although this level represents the program's 10-year average cost, the program receives a 250-percent increase over last year's request level to reduce the risk of disrupting other Corps programs to respond to emergencies.

- **ANWR:** The President's budget again proposes to authorize exploration, and – if resources are discovered – environmentally responsible development within a small portion of the Arctic National Wildlife Refuge [ANWR]. Lease bonus receipts are estimated to total $3.2 billion. Of that amount, $2.4 billion of that would first be received in 2005, with half going to offset spending at the Energy Department and half to the State of Alaska.

  Another $387 million in receipts would go to Alaska over the 8 years after 2005, while $388 million would go to offset spending at the Interior Department over the same period. The Department of Interior estimates that recoverable oil from ANWR is between 5.7 billion and 16 billion barrels – enough to replace oil imports from Iraq for at least 15 years.

- **Homeland Security:** The budget requests $123 million to support the EPA's Homeland Security responsibilities. The request allows the agency to continue protecting the Nation's critical water infrastructure while upgrading and improving emergency response capabilities.

Table 11: The President's Budget, Natural Resources and Environment (Function 300)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	29,357	30,400	31,432	32,090	32,785	33,538	3.6	2.7
Outlays	30,578	31,586	31,780	32,492	32,849	33,492	3.0	1.8
Discretionary								
BA	27,571	27,993	28,478	29,065	29,696	30,451	1.5	2.0
Outlays	29,165	29,472	29,509	29,565	29,905	30,568	1.1	0.9
Mandatory								
BA	1,786	2,407	2,954	3,025	3,089	3,087	34.8	11.6
Outlays	1,413	2,114	2,271	2,927	2,944	2,924	49.6	15.7

Source: Office of Management and Budget. [a]Administration request.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

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Department of Interior

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

Army Corps of Engineers

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

Environmental Protection Agency

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report).

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable.

Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Agriculture

Farmland Protection Program	Results Not Demonstrated
Wildland Fire Management	Results Not Demonstrated
Wildlife Habitat Incentives Program	Results Not Demonstrated

Department of Commerce

National Marine Fisheries Service	Adequate
National Weather Service	Effective
Pacific Coastal Salmon Recovery Fund	Results Not Demonstrated

Department of Interior

Abandoned Land Mine Reclamation	Results Not Demonstrated
Bureau of Reclamation Hydropower	Adequate
Habitat Restoration Activities	Moderately Effective
Indian School Construction	Results Not Demonstrated
Indian School Operations	Adequate
Military National Forest Improvement and Maintenance	Results Not Demonstrated
National Fish Hatchery System	Results Not Demonstrated
National Mapping	Results Not Demonstrated
National Park Service Facility Management	Results Not Demonstrated
National Park Service Natural Resource Challenge	Moderately Effective
Outer Continental Shelf Environmental Studies	Moderately Effective
Partners for Fish and Wildlife	Adequate
Rural Water Supply	Results Not Demonstrated
Title XVI Water Reuse and Recycling	Moderately Effective
Tribal Land Consolidation	Moderately Effective
Wildland Fire Management	Results Not Demonstrated

Army Corps of Engineers

Emergency Management	Moderately Effective
Flood Damage Reduction	Results Not Demonstrated
Hydropower	Results Not Demonstrated
Inland Waterways Navigation	Results Not Demonstrated
Non-Regulatory Wetlands Activities	Results Not Demonstrated

Environmental Protection Agency

Air Toxics	Results Not Demonstrated
Civil Enforcement	Results Not Demonstrated
Drinking Water State Revolving Fund	Results Not Demonstrated
Existing Chemicals	Results Not Demonstrated
Leaking Underground Storage Tanks	Results Not Demonstrated
New Chemicals	Adequate
Nonpoint Source Grants	Results Not Demonstrated
Pesticide Registration	Results Not Demonstrated
Superfund Removal	Results Not Demonstrated
Tribal General Assistance	Results Not Demonstrated

AGRICULTURE
(FUNCTION 350)

SUMMARY

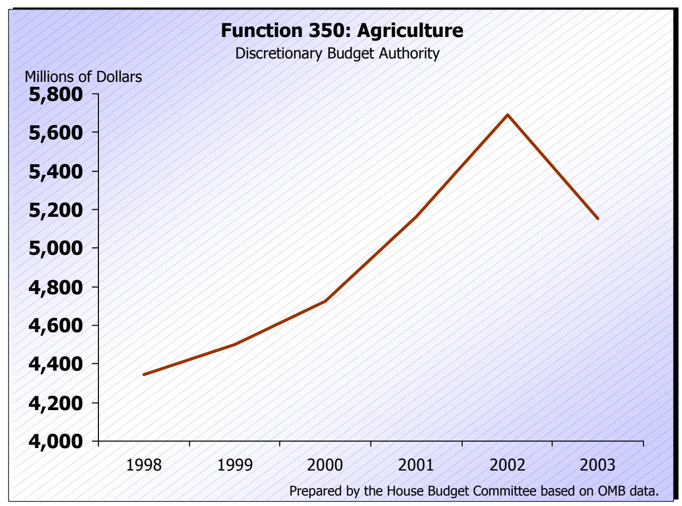
The Agriculture function includes funds for direct assistance and loans to food and fiber producers, export assistance, market information, inspection services, and agricultural research. Farm policy is driven by the Farm Security and Rural Investment Act of 2002, which provides producers with continued planting flexibility while protecting them against unique uncertainties such as poor weather conditions and unfavorable market conditions.

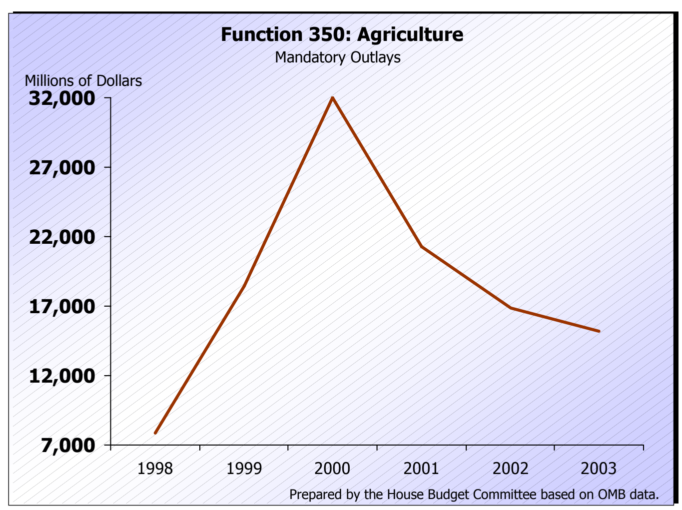
The President's budget request for the Department of Agriculture [USDA] provides a total of $21.1 billion in budget authority [BA], an increase of $1 billion, or 5 percent, above the 2003 requested level; and $20.8 billion in outlays, a decrease of $48 million, or 0.2 percent, from the 2003 request.

Assuming the President's proposal, spending in this function since 1999 has declined by an average of -2.6 percent in BA and -2.0 percent in outlays per year. The decrease occurs because the lion's share [59 percent] of Function 350 expenditures are for mandatory price support programs operated by the Commodity Credit Corporation [CCC]. Expenditures for the program fluctuate dramatically from year to year based on commodity prices. For example, funding for Function 350 increased by 40 percent in fiscal year 2000 over 1999 because of a dramatic increase in payments to farmers caused by sharp drops in commodity prices. The overall decline in funding levels over the past 5 years can be attributed to the recent drop in farm payments caused by a spike in commodity prices.

DEPARTMENT OF HOMELAND SECURITY

- **Homeland Security:** Under the Department of Homeland Security Act of 2002, several functions previously performed by USDA will be transferred to the Department of Homeland Security [DHS] by 1 March 2003, functions relating to agricultural import and entry inspection activities from the Animal and Plant Health Inspection Service [APHIS]. By 1 June 2003, the Plum Island Animal Disease Center in New York will be transferred. In anticipation of this transfer, the President's budget calls for $228 million





for such activities within the DHS' Border and Transportation Security Agency.

DEPARTMENT OF AGRICULTURE

- **Farm Programs:** The President's budget continues implementation of the new farm bill, a total $170-billion safety net for America's farmers and ranchers over 10 years. The request provides $12.9 billion for price support programs operated by the Commodity Credit Corporation.

- **Agricultural Inspections:** The request increases funds for APHIS inspection budget by $23 million. These funds will be used for inspections at certain ports of entry; increasing the availability of vaccines for foot-and-mouth disease and expanding diagnostic and other scientific and technical services.

- **Food Safety:** The President's request increases the USDA's food safety budget by $92 million over the fiscal year 2003 request.

  This includes an increase of $42 million for the Food Safety and Inspection Service [FSIS] by $42 million. The overall funding level of $797 million represents a 20-percent funding increase in this agency since fiscal year 2000. Activities funded include increasing the agency's inspection workforce to 7,680 meat, poultry, and egg products inspectors and veterinarians; providing specialized training for food safety authorities to ensure the safety of the commercial supply of meat, poultry, and egg products; increasing microbiological testing to ensure effective controls or elimination of pathogens in products; increasing foreign product surveillance; and new food safety public education efforts.

  Third, the President's budget provides an increase of $47 million for USDA's research agencies for strengthening laboratory security measures; conducting additional research on emerging animal diseases; new vaccine development; new biosecurity database systems; and continued development of the unified Federal-State Diagnostic Network for identifying and responding to high risk biological pathogens.

- **Research:** The budget for agricultural research, education, and extension programs is $2.2 billion – an increase of $24 million including increases for bioterrorism, emerging and exotic diseases, genomics and cyber security. The request also proposes to fund the National Research Initiative [NRI], USDA's major discretionary competitive grant program, at $200 million – an increase of 67 percent since 2002.

- **Trade Expansion:** The President fully funds trade assistance programs essential to giving the Department of Agriculture the resources to negotiate trade agreements that will remove trade barriers and benefit the U.S. agricultural sector. Included in this funding stream are a 39-percent increase for the Market Access Program, a 58 percent increase for the Dairy Export Incentive Program [DEIP], and a 15-percent increase for the Public Law 480 program over the 2003 requested levels.

- **Discretionary Changes to Mandatory Programs:** To provide funding for high-priority, discretionary activities such as conservation technical assistance, food safety, and international school feeding programs, the President's request specifies $640 million in available mandatory authority. The need to provide additional discretionary assistance has grown because of a recent Department of Justice opinion which says that mandatory CCC funds cannot be used to pay for technical assistance for conservation programs. Mandatory funds that would be drawn from to pay for discretionary programs include: $173 million from the farm bill conservation programs; $143 million from mandatory rural development and energy spending authorized in the farm bill; $120 million from the Initiative for Future Agriculture and Food Systems; $68 million from the Conservation Security Program; $68 million from reducing the amount crop insurance companies receive for administrative expense reimbursement; $50 million from the Watershed Rehabilitation Program; and $18 million from the Wildlife Habitat Incentives Program.

- **Common Computing Environment:** Funding for the Common Computing Environment program would increase by $45 million [33 percent] to $178 million. By helping to modernize the department's computer system, this program will help improve employee efficiency and Internet access and electronic filing capabilities available to citizens.

The program is an important part of the effort to upgrade technology in local county field offices and will help to complete implementation of last year's farm bill.

- **New User Fees:** The President proposes a new fee for overtime work performed by Food Safety and Inspection Service inspectors. This change will increase receipts by $122 million in 2004. The request reproposes the expansion of current animal welfare inspections, the expansion of current grain and weighing fees to include standardization programs, and the establishment of a licensing fee for the cost of the Packers and Stockyards programs. These fees (including the overtime fee) total $159 million and would offset costs of the programs.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

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Department of Agriculture

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Yellow
Budget and Performance Integration . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Agriculture

Animal Welfare . . . . Results Not Demonstrated
Crop Insurance . . . . Results Not Demonstrated
Direct Crop Payments . . . . . . Results Not Demonstrated
Food Aid Programs . . . . Results Not Demonstrated
Food Safety and Inspection Service . . . . Adequate

Table 12: The President's Budget, Agriculture (Function 350)
(dollars in millions)

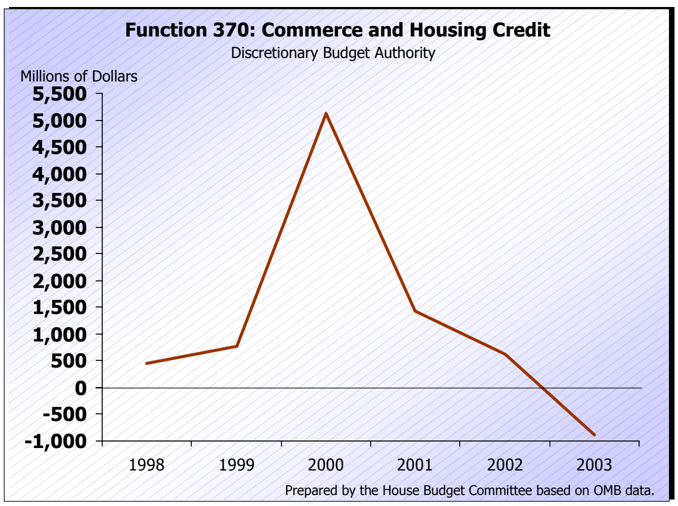
	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	20,050	21,139	24,269	23,916	22,951	21,480	5.4	1.4
Outlays	20,847	20,799	24,216	23,921	23,052	21,495	-0.2	0.6
Discretionary								
BA	5,151	5,372	5,595	5,708	5,833	5,982	4.3	3.0
Outlays	5,671	5,652	5,547	5,654	5,783	5.945	-0.3	0.9
Mandatory								
BA	14,899	15,767	18,674	18,208	17,118	15,498	5.8	0.8
Outlays	15,176	15,147	18,669	18,267	17,269	15,550	-0.2	0.5

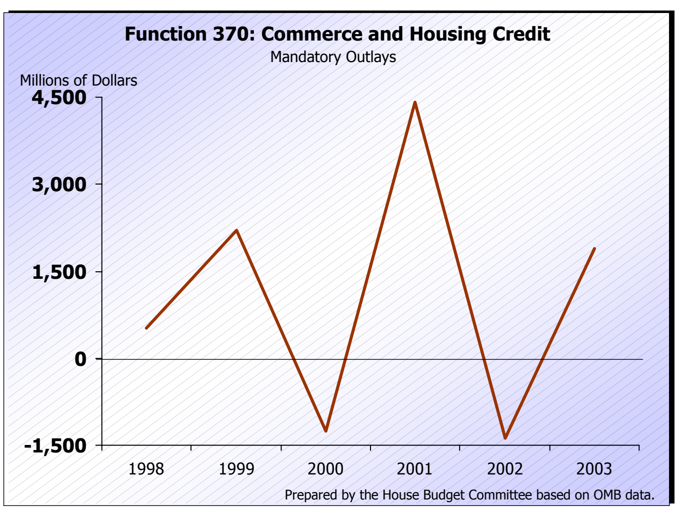
Source: Office of Management and Budget. [a]Administration request.

COMMERCE AND HOUSING CREDIT
(FUNCTION 370)

SUMMARY

This function includes four components: mortgage credit (usually negative budget authority because receipts tend to exceed the losses from defaulted mortgages); the Postal Service (mostly off-budget); deposit insurance (negligible spending due to reserve supporting fees, etc.); and other advancement of commerce (the majority of the discretionary and mandatory spending in this function). The last component includes most of the Commerce Department including the International Trade Administration, Bureau of Economic Analysis, the Patent and Trademark Office, National Institute of Standards and Technology, the National Telecommunications and Information Administration, the Minority Business Development Agency, and the Bureau of the Census; as well as independent agencies such as the Small Business Administration, Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Trade Commission, and the Federal Communications Commission. More than two-thirds of the spending in function 370 is out of the FCC's Universal Service Fund. (This fund receives contributions from certain telecommunications operators to promote universal service.)





Under the President's budget proposal, Function 370 for fiscal year 2004 includes $9.6 billion in total budget authority, only $57 million below the current services level. This represents a net increase of $1.0 billion, or 12.1 percent, over the 2003 level (assuming the President's requested fiscal year 2003 levels are adopted). Total outlays of -$0.7 billion are proposed, representing a net decrease of $2.0 billion, or -155.5 percent, under the 2003 level. Outlays are negative, and $2.3 billion below current services for 2004, due to the President's proposal to reduce off-budget Postal Service payments to the Civil Service Retirement System [CSRS] to correct overfunding of the Postal Service's liability.

The average decline in budget authority over the past 5 years [1999-2004] for Function 370 is -7.8 percent, for which the off-budget Postal Service accounts for 99 percent of the total 5-year decline. The average annual spending decline in outlays over the past 5 years is -23.3 percent. Again, the off-budget Postal Service accounts for 157 percent of the total decline (meaning the on-budget outlays for function 370 actually increase 7.6 percent a year).

The budget includes an almost $200-million increase from the current level to address Census Bureau needs and planning toward the 2010 decennial population count; and $24 million of additional spending by the Commerce Department for homeland security purposes. It also includes the termination of Industrial Technology Services (Advanced Technology Program [ATP] and Manufacturing Extension Partnership [MEP] grants), for a savings of $120 million. The Securities and Exchange Commission is almost doubled, to $842 million. The Small Business Administration [SBA] request will make possible almost $21 billion of non-disaster (Function 450) small business loans, $5.5 billion more than today.

KEY COMPONENTS

- **Homeland Security:** The budget calls for increases from last year's request of $2.3 million for the Bureau of Industry and Security (formerly the Bureau of Export Administration), $10.3 million for the National Institute of Standards and Technology, $7.7 million for the National Weather Service, and $3.7 million for the International Trade Administration.

- **Securities and Exchange Commission:** The President's budget proposes to nearly double the 2002 funding level for the Securities and Exchange Commission [SEC] by requesting $842 million in 2004, the largest increase in the agency's history. Recent exposure of long-standing problems has raised serious questions concerning the integrity of financial reporting. In response, the President is seeking to increase the SEC by $127 million in the current fiscal year (2003), and by another $274 million in fiscal year 2004 (48 percent). The total $400-million increase will enable the SEC to hire more accountants, attorneys, and examiners to protect investors, root out fraud, and combat corporate wrongdoing. This increase reflects additional efforts by the SEC to implement new investor protection policies, including the President's Ten Point Plan on Corporate Responsibility. Full authorized funding for the SEC under the Sarbanes-Oxley Act is $776 million. SEC fees are estimated to total $1.54 billion in fiscal year 2004, making the SEC budget a net -$701 million.

- **The Census Bureau:** The request includes $662 million for the Bureau of the Census for various activities, including the Commerce Department's efforts to reengineer the 2010 census.

  The goal is to continue improving the accuracy of the census (the net undercount was reduced from 1.6 percent in 1990 to 0.06 percent in 2000) while controlling, if not reducing, its cost per home (which rose from $32 in 1990 to $56 in 2000). As a major part of this work, the Census Bureau will launch the American Community Survey, which will provide detailed demographic data on an annual, rather than decennial, basis.

- **Economic Data:** The budget provides a $12-million increase for the Bureau of Economic Analysis ($84.8 million total), to improve the statistical processing systems for its economic data and accelerate the release of major economic estimates, such as gross domestic product [GDP].

- **Patent and Trademark Office [PTO]:** The budget makes possible a $274-million increase (24 percent) to the current 2002 operating level of $1.13 billion, to reduce the length of time for patent approval. Even with this increase, the PTO budget is still fully fee supported with an offsetting collections windfall of -$100 million, with receipts at $1.5 billion.

- **NIST:** The request supports a $64-million increase (16 percent) for the core research at the National Institute for Standards and Technology ($458 million total for NIST).

- **SBA 7(a) Business Loans:** Non-emergency general business loan funding goes up from $85 million, supporting and subsidizing $4.9 billion in guaranteed loans in 2003 to $95 million in 2003, increasing such loan volume by $4.5 billion to $9.3 billion due to a 1.02-percent subsidy rate in 2004, down from 1.76 percent in 2003.

- **Commodity Futures Trading Commission:** The budget includes $88 million to regulate U.S. futures and options markets, $17 million more than the non-emergency fiscal year 2002 level . Fees proposed last year on each round-turn commodities futures and options transaction are not requested this year.

- **Federal Communication Commission [FCC] and Universal Service Fund:** The President proposes to extend indefinitely the FCC's spectrum auction authority, which expires in 2007. Additional receipts from this proposal are estimated to produce savings of $2.2 billion between 2007 and 2013. Also proposed is new FCC authority to set user fees on unauctioned spectrum licenses. Estimated receipts are -$1.9 billion between 2005 and 2013. Finally, an annual lease fee totaling $500 million a year for the use of analog spectrum by commercial broadcasters is proposed to begin in 2007. All three of these proposals are actually accounted for in function 950, undistributed offsetting receipts. But accounted for in this function is the mandatory funding out of the Universal Service Fund, at $6.6 billion for 2004, $322 million over 2003. This fund is authorized by the 1996 Telecommunications Act to subsidize service to high-cost areas, low-income consumers, schools, libraries, and health care providers.

- **Federal Deposit Insurance Corporation:** The budget contains a proposal to merge the Bank Insurance Fund and the Savings Association Insurance Fund at a 2004 cost of $440 million, $1.6 billion over 5 years.

- **ATP:** Consistent with the administration's emphasis on shifting resources to reflect changing needs such as homeland security R&D, the President's budget proposes to terminate the Advanced Technology Program in the Department of Commerce, with $27 million in funding provided only for administrative costs and close-out. Funds provided in 2003 can be used to sustain multiyear projects that are continuing in 2004. Funding in fiscal year 2002 was $197 million. The administration considers other federally funded R&D programs are more effective and of higher priority. About 40 percent of ATP projects are led by firms with more than 500 employees, which do not need Federal subsidies, and past General Accounting Office studies found that projects often have been similar to those being carried out by companies not receiving such subsidies. Since 1995, the House has often passed its version of the Commerce, Justice, State appropriations bill with close-out funding for ATP. This position has not as yet been sustained in the Senate.

- **Emergency Steel Loan Guarantees:** The President's budget calls for rescinding $26 million of the remaining unobligated balances due to lower-than-expected demand.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

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Department of Commerce

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Yellow
Budget and Performance Integration	Yellow

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Agriculture

Multifamily Housing . . . . Results Not Demonstrated
Direct Loans and Rental Assistance

Department of Commerce

Bureau of Economic Analysis . . . . Effective

Patents . . . . Adequate
Trademarks . . . . Moderately Effective

Department of the Treasury

Thrift . . . . Effective
Supervision

Table 13: The President's Budget, Commerce and Housing Credit (Function 370)
(dollars in millions)

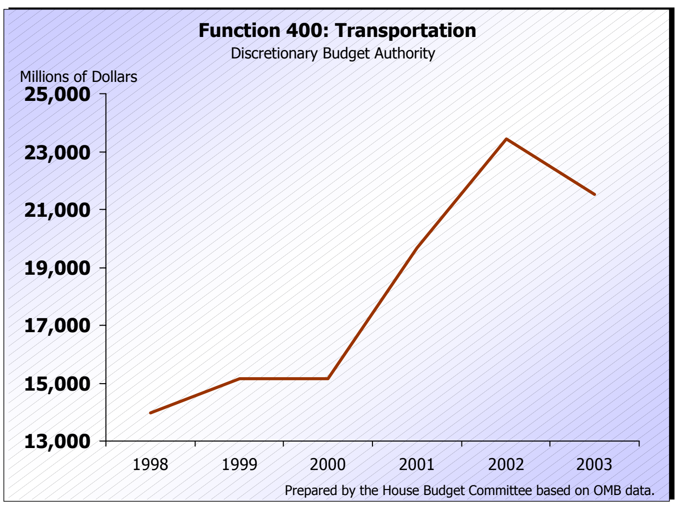
							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	8,542	9,575	9,476	9,569	11,572	11,317	12.1	5.8
Outlays	1,262	-701	-1,982	233	1,551	1,371	-155.5	1.7
Discretionary								
BA	-890	-979	-620	-476	723	936	-10.0	41.0
Outlays	-627	-749	-646	-556	632	769	-19.5	44.5
Mandatory								
BA	9,432	10,554	10,096	10,045	10,849	10,381	11.9	1.9
Outlays	1,889	48	-1,336	789	919	602	-97.5	-20.4

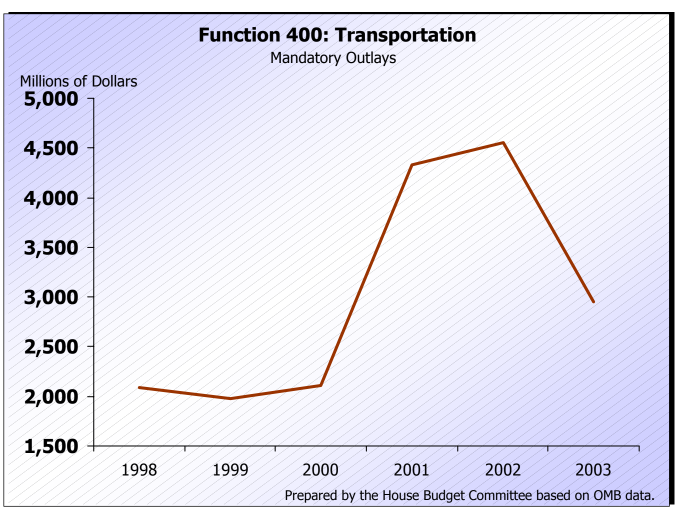
Source: Office of Management and Budget. [a]Administration request.

TRANSPORTATION
(FUNCTION 400)

SUMMARY

This function supports all major Federal transportation programs. About two-thirds of the funding provided here is for ground transportation programs. This includes the Federal-aid highway program, and mass transit operating and capital assistance. Also under ground transportation are rail transportation through the National Rail Passenger Corporation [Amtrak], and high-speed rail and rail safety programs. Additional components of this function are air transportation, including the Federal Aviation Administration [FAA] airport improvement program, the facilities and equipment program, and the operation of the air traffic control system; water transportation through the Coast Guard and the Maritime Administration; and other transportation support activities. Funds for air transportation programs under the auspices of NASA are distributed through this function as well.





As demonstrated by the terrorist attacks of 11 September 2001, the Nation's transportation system is on the front line in the global war on terrorism. Two major Department of Transportation [DOT] operating administrations – the United States Coast Guard and the Transportation Security Administration – are moving from DOT to the new Department of Homeland Security. The administration's fiscal year 2004 proposal for transportation (function 400) calls for $63.828 billion in budget authority [BA] and $63.449 billion in outlays – a $253-million, or 0.4-percent, increase from the previous year's level. If the President's proposed fiscal year 2004 levels are adopted, the rate of spending growth over the period of fiscal years 1999-2004 would be an average of 4.8 percent a year.

DEPARTMENT OF HOMELAND SECURITY

- **Transportation Security Administration [TSA]:** The President's budget proposes $4.8 billion for the Transportation Security Administration, which will be part of the new Border and Transportation Security Agency in the Department of Homeland Security. An estimated $2.5 billion will be financed by offsetting collections from aviation passenger fees and airline security fees. The funds will be used to fund airport security screener and supervisory staff necessary to manage passenger and baggage screening; State and local law enforcement personnel for screening checkpoints; Federal air marshals;

research and development of more effective and efficient screening technologies; and activities to improve flight deck safety. Funds are also to be used to improve security of other modes of transportation, including port security and mass transit.

This is a $534-million reduction from the President's fiscal year 2003 request level (as amended), made possible by the completion of TSA rollout activities this year, the rightsizing of the screener workforce, and the absorption of some activities into other Department of Homeland Security offices.

- **U.S. Coast Guard:** The budget requests $5.6 billion ($485 million over the fiscal year 2003 funding request) for the Coast Guard: $20 million for hiring additional search and rescue staff; $134 million to continue the development of a "maritime 911" system; and $500 million for the Integrated Deepwater Systems project to upgrade fleet and operations. This level supports the National Strategy for Homeland Security initiative to recapitalize Coast Guard assets.

DEPARTMENT OF TRANSPORTATION

- **Highways:** The budget requests $29.3 billion for highway programs, a level that is $1 billion over and above the estimated receipts of the Highway Account of the Highway Trust Fund. The request also directs all revenue from gasohol taxes to the Highway Trust Fund, increasing available receipts by over $600 million per year. All Federal Highway Administration programs are subject to reauthorization this year.

- **Mass Transit:** The administration proposes $7.2 billion for the Federal Transit Administration to enhance mobility and accessibility. All Federal Transit Administration programs are subject to reauthorization this year.

- **Air Traffic Control and Safety:** The budget requests $14.0 billion for the Federal Aviation Administration [FAA], an increase of $425 million, or 3.1 percent, over fiscal year 2002 (not including emergency supplemental funding). The administration plan focuses upon promoting aviation safety and mobility. All Federal Aviation Administration programs are subject to reauthorization this year.

- **Amtrak:** The President's budget requests $900 million for the National Passenger Rail Corporation [Amtrak], of which $671 million is for operating costs and $229 million for maintenance and for capital and infrastructure improvements.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

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Department of Homeland Security

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

Department of Transportation

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Yellow

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Administration conclusions concerning selected programs are summarized below.

Department of Homeland Security

U.S. Coast Guard's Aids to Navigation Program . . . Results Not Demonstrated

U.S. Coast Guard's Drug Interdiction Program . . . . Results Not Demonstrated

U.S. Coast Guard's Search and Rescue Program . . . . Results Not Demonstrated

Department of Transportation

Federal Aviation Administration's Grants-in-Aid for Airports Program . . . . Moderately Effective

Highway Infrastructure . . . . Moderately Effective

Highway Safety Grant Program . . . Moderately Effective

Motor Carrier Safety Grant Program . . . . Moderately Effective

Table 14: The President's Budget, Transportation (Function 400)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	63,575	63,828	65,134	66,813	68,373	70,042	0.4	1.9
Outlays	64,228	63,449	64,334	65,106	66,810	68,861	-1.2	1.4
Discretionary								
BA	21,507	22,278	22,607	23,018	23,494	24,048	3.6	2.4
Outlays	61,276	61,404	62,209	63,043	64,774	66,841	0.2	1.7
Mandatory								
BA	42,068	41,550	42,527	43,795	44,879	45,994	-1.2	1.8
Outlays	2,952	2,045	2,125	2,063	2,036	2,020	-30.7	-6.4

Source: Office of Management and Budget. [a]Administration request.

COMMUNITY AND REGIONAL DEVELOPMENT
(FUNCTION 450)

SUMMARY

This function includes programs that provide Federal funding for economic and community development in both urban and rural areas. These programs include: Community Development Block Grants [CDBGs]; the non-power activities of the Tennessee Valley Authority; the non-roads activities of the Appalachian Regional Commission; the Economic Development Administration [EDA]; and partial funding for the Bureau of Indian Affairs. Funding for disaster relief and insurance – including activities of the Federal Emergency Management Agency [FEMA], now part of the newly created Department of Homeland Security – also appear in this function.

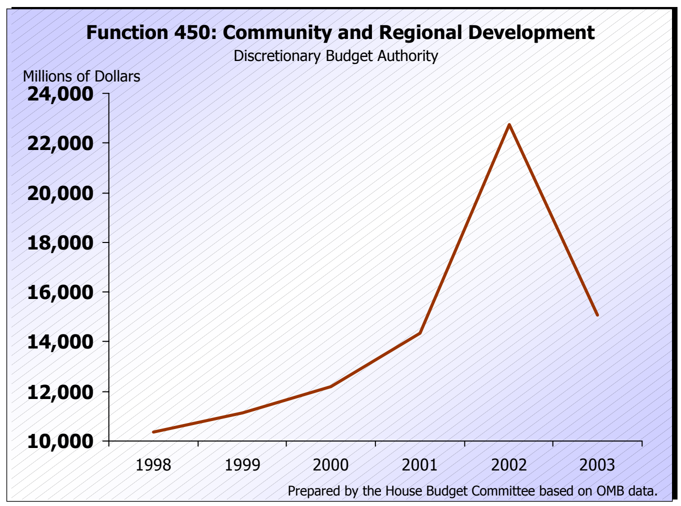
The President's budget proposes $13.6 billion in budget authority and $17.1billion in outlays for fiscal year 2004 for this function. This represents a decline of 11.6 percent in BA and 7.5 percent in outlays from the fiscal year 2003 request.

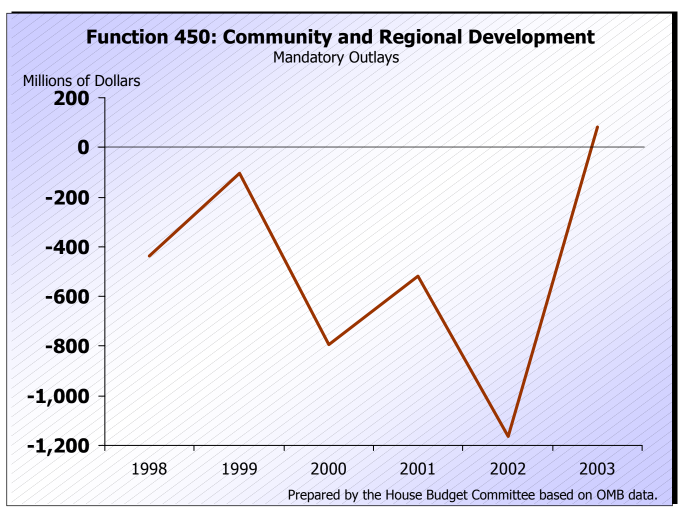
Over the period 1999-2004, budget authority in the function has had an average annual increase of 3.8 percent (assuming adoption of the President's 2004 proposal). In the same period, outlays have declined an average of 41.2 percent a year. The decline in outlays is large because of the one-time emergency funding for FEMA, and CDBGs that went for the recovery efforts in New York after the terrorist attacks of 11 September 2001.

Outlays exceed budget authority in 2004 because one-time fiscal year 2002 emergency spending in FEMA for recovery from the terrorist attacks of 11 September 2001, and because of Community Development Block Grant funds still in the pipeline.

Budget authority and outlays decline relative to fiscal year 2003, also because of the end of one-time spending increases in the function, which resulted from the 11 September attacks.

Major initiatives in the function include the expanded role of FEMA in providing assistance and training to local first responders to better improve preparedness for future emergencies, including terrorist attacks, as well as





continued support for economic development activities in rural and urban areas.

DEPARTMENT OF HOMELAND SECURITY

- **Disaster Relief:** With the creation of the new Department of Homeland Security, FEMA has ceased to be an independent agency, and now is a part of the new Department. Disaster relief funding, formerly controlled by FEMA, now will be administered by the Department. The budget includes $3.2 billion for disaster relief in fiscal year 2004, a level consistent with the average non-terrorist event costs over the past five years. This includes $2 billion in new money, together with funding remaining unspent from prior years. Funding also includes $300 million for a new pre-disaster hazard mitigation program, which will provide grants to State and local governments on a competitive basis. This program will replace an existing formula grant program that had been funded under the Disaster Relief Fund.

- **First Responder Grants:** The budget provides $ 3.5 billion in funding for grants for "first responders" such as local firefighting, and search-and-rescue or police forces. This is a $3-billion increase over the 2003 request. Funding will be administered by the Department of Homeland Security's Office of Emergency Preparedness.

OTHER KEY COMPONENTS

- **Community Development Block Grants [CDBGs]:** The budget proposes spending of $4.7 billion on this program, identical to the request for 2003. CDBGs provide annual grants to more than 1,000 eligible cities, counties, and States to fund activities aimed at "the development of viable urban communities." But the administration is concerned that the current formula for allocating grant money may actually cause a shift in funding from poorer to wealthier communities. Hence, the budget proposes that changes be made in the allocation formula to ensure that the program remains consistent with its stated purpose of fostering economic development in communities with high concentrations of poverty.

- **Neighborhood Reinvestment Corporation:** The budget increases funding for the Neighborhood Reinvestment Corporation by $10 million, to a total of $115 million. The Corporation has pledged to provide direct assistance to more than 160,000 families through affordable mortgages and rehabilitation loans.

- **Flood Insurance Mapping:** The budget contains $200 million, identical to last year's request, to continue replacing the Nation's flood insurance rate maps, many of which are out of date and inaccurate.

- **Rural Wastewater Loans and Grants:** The budget contains nearly $1.5 billion for this activity, which has demonstrated effectiveness at increasing the number of small rural communities with safe drinking water and modern sewer systems. This is the same as the 2003 request.

  Within the total, grants are reduced to $346 million, a reduction of $241 million from the 2003 request. But loans for such projects are increased by an identical amount. Because of the low interest rate charged on these loans, this should effectively make more funding available to communities seeking to improve water quality.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report). The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has any one of a number of serious flaws.

Department of Homeland Security

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red

Budget and Performance Integration . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report).

It uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, and a fifth category – results not demonstrated – if adequate measures to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Homeland Security

Disaster Relief Fund – Public Assistance . . . . . . Results Not Demonstrated
Hazard Mitigation Grants . . . . Results Not Demonstrated
National Flood Insurance . . . . Moderately Effective

Tennessee Valley Authority

TVA Resource Stewardship . . . . Effective

Table 15: The President's Budget, Community and Regional Development (Function 450)
(dollars in millions)

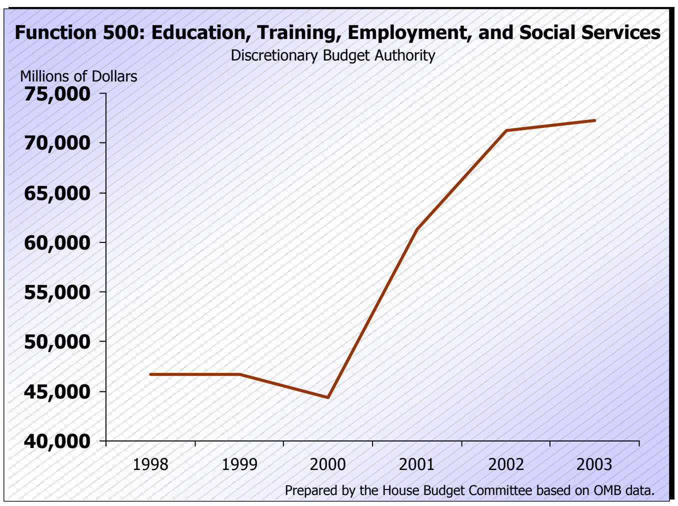
							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	15,377	13,616	13,858	14,178	14,514	14,905	- 11.5	1.8
Outlays	18,459	17,060	16,365	14,199	14,237	14,583	- 7.6	- 3.1
Discretionary								
BA	15,073	13,893	14,181	14,482	14,804	15,266	- 7.8	1.9
Outlays	18,378	17,466	16,827	14,772	14,838	15,219	- 5.0	- 2.7
Mandatory								
BA	304	- 277	- 323	- 304	- 290	- 361	- 191.1	5.4
Outlays	81	- 406	- 462	- 573	- 601	- 636	- 601.2	9.4

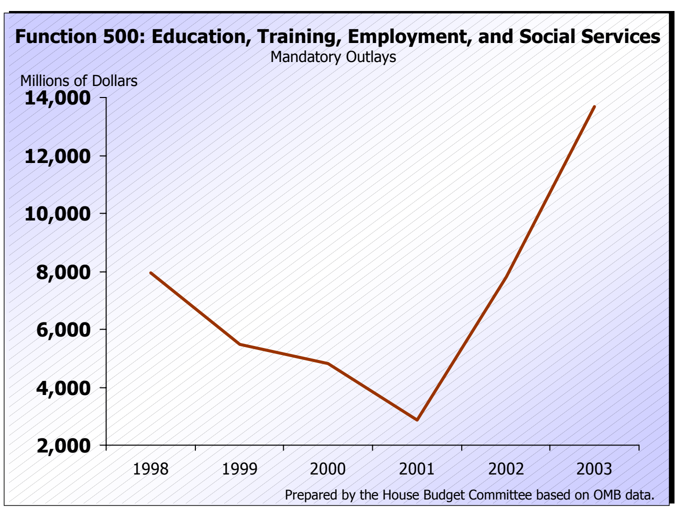
Source: Office of Management and Budget. [a]Administration request.

EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(FUNCTION 500)

SUMMARY

Education spending is more than two-thirds of the total in this function. This includes funding for elementary and secondary education, aid to post-secondary students and institutions, and research and general education – which incorporates arts, humanities, museums, libraries and public broadcasting. The remainder of funds go to job training, other labor services, and social services – which includes children and families services programs, the Social Services block grant, vocational rehabilitation, and national service. Under the President's fiscal year 2004 budget request, budget authority [BA] for Function 500 is reduced from $88.484 billion to $86.002 billion, a 2.8-percent reduction from fiscal year 2003.





Total outlays are reduced from $86.252 billion to $85.336 billion, a 1.1-percent reduction from fiscal year 2003. The net reduction in dollars occurs because an overall 1-year increase on the discretionary side is offset by a larger decrease on the mandatory side. The decrease is due to an upward reestimate (budget authority and outlays) of the cost of the Education Department's direct loan program for 2003, and a proposed one-time, $3.6-billion increase in budget authority in 2003 for re-employment accounts for the unemployed (see further discussion below).

If the President's proposal was adopted, budget authority for Function 500 would increase from $55.478 billion in 1999 to $86.002 billion in 2004, an average annual increase of 9.2-percent. Outlays would increase from $50.591 billion in 1999 to $85.336 billion in 2004, an average annual increase of 11-percent. This increase is chiefly attributable to a rise in total spending for the Department of Education, where budget authority rises from $33.684 billion in 1999 to $61.381 billion in 2004, an average annual increase of 12.8 percent. Outlays for the Department of Education during this period rise from $31.326 billion to $58.891, an average annual increase of 13.5 percent.

DEPARTMENT OF EDUCATION

The President's budget proposes increasing the Department's discretionary budget by $2.8 billion, to

$53.1 billion. This 5.6-percent rise is one of the largest among Federal agencies. A total of $3.9 billion in increases is provided for three programs: the Individuals with Disabilities Act [IDEA], Pell Grants for low-income post-secondary students, and Title I grants for low-income schoolchildren. These increases are partly offset by eliminating or reducing low-priority programs.

- **Special Education:** For the third consecutive year, the President is proposing a $1-billion increase for the special education grants to States program, from $8.53 billion to $9.53 billion, a 12-percent increase that is compatible with the level proposed for fiscal year 2004 in the fiscal year 2003 House-passed budget resolution. If enacted, the proposal would fund 19-percent of the national average per pupil expenditure, and result in a 50-percent increase for special education under President Bush.

- **Pell Grants:** The President's budget provides a $1.9-billion increase for the Pell Grant program, to $12.7 billion – one of the largest dollar increases of any nondefense discretionary program. This funding level would maintain a $4,000 maximum award for more than 4.8 million students – nearly 1 million more than when President Bush took office.

  The President's budget assumes rapid enactment of a proposal to match reported income data of Pell applicants with data from the Internal Revenue Service, eliminating improper awards and saving $638 million over fiscal years 2003 and 2004. It estimates that this data match, coupled with the proposed funding increase and a tapering off in the growth of Pell applicants, will eliminate the funding shortfall that resulted from higher-than-expected applicant volume during the 2002-2003 academic year.

- **Title I:** The budget provides a $1-billion increase, to $12.35 billion, for Title I grants to States to help schools in high-poverty communities implement the No Child Left Behind [NCLB] Act of 2001. The request level would result in a $3.6-billion, or 41-percent, increase in Title I funding since the passage of NCLB. That law set the "full funding" authorization level for Title I for fiscal year 2004 at $18.5 billion.

- **Reading Programs:** The budget provides a $75-million increase for reading programs. This includes a $50-million increase, to $1.05 billion, for Reading First State Grants, and a $25-million increase, to $100 million, for Early Reading First. Reading First emphasizes scientifically based reading instruction, and is a key component of NCLB. In his blueprint for the law, the President committed to providing $5 billion for the program over a 5-year period.

- **Teachers:** A sum of $2.85 billion is provided for Teacher Quality State Grants, the same as the fiscal year 2003 request. The Troops-to-Teachers program is increased by 25 percent, to $25 million. Transition to Teaching is also increased by 25-percent, to $49.4 million. Funding for Teaching of Traditional American History is doubled, to $100 million.

  The budget also has a mandatory proposal to expand the maximum level of teacher loan forgiveness for math, science, and special education teachers serving in low-income communities from $5,000 to $17,500. The estimated cost is $178 million in fiscal year 2004, and $384 million over 5 years.

- **School Choice:** A total of $756 million is provided to fund an array of school choice programs. Grant funds encouraging public school choice include $320 million for charter schools, $110 million for magnet schools, and $25 million for voluntary public school choice. Two proposals promote public or private choice: a $75-million Choice Incentive Fund that reserves a portion of program funds for school choice in the District of Columbia; and a refundable tax credit for parents of children who attend low-performing schools who transfer their child to another school. The credit is worth up to 50 percent of the first $5,000 of qualifying expenses. The estimated outlay expense is $226 million in 2004 and $3.15 billion over 5 years.

- **Minority Colleges:** Consistent with the President's pledge, a 5-percent increase is provided to minority colleges and graduate institutions, including Historically Black Colleges and Universities, Historically Black Graduate Institutions, Hispanic-serving institutions, and Tribally Controlled Colleges and Universities.

- **Higher Education Outreach:** A sum of $802.5 million is provided for Federal TRIO programs that fund outreach and support services to disadvantaged individuals to help them enter and complete post-secondary education programs. In addition, $285 million is provided for GEAR UP, which funds programs providing skills needed to successfully pursue post-secondary education. Proposed levels for TRIO and GEAR UP are the same as final 2002 appropriations and the 2003 request amounts.

- **Student Aid Administration:** The proposal for $947 million to administer the various Federal student aid programs consolidates such funding into a single account. Currently, funding is divided among two discretionary accounts and a mandatory one. Combining them would allow the Education Department to improve management and enhance accountability.

- **Program Eliminations:** The proposal terminates 45 programs, freeing up $1.5 billion for higher priority activities. These same programs were proposed for termination in fiscal year 2003, except for the following: Comprehensive School Reform, Regional Educational Laboratories, Assistive Technology State Grants, Tech-Prep State Grants, Perkins Capital Contributions, and Loan Forgiveness for Child Care Providers. Several of these programs received low performance rating scores (see below).

- **Education Reductions:** Vocational education programs are reduced from $1.3 billion, to $1 billion, and consolidated into a single, flexible State grant program that will refocus on improving academic outcomes to extend the achievement and accountability goals of No Child Left Behind. The 21st Century Community Learning Centers are reduced from $1 billion to$600 million, and Even Start is reduced by $25 million to $175 million; both programs received low performance scores. Impact Aid is reduced by $125 million by eliminating payments for children who live on, or have parents working on, Federal property, but not both. The Fund for the Improvement of Postsecondary Education is reduced from $180.9 million, to $39.1 million, by subtracting funding previously provided for one-time projects.

DEPARTMENT OF LABOR

The President's request provides $11.5 billion in discretionary funding to the Department of Labor, a 1-percent decrease from the fiscal year 2003 total.

- **Re-employment Accounts:** As part of the President's economic growth package, the budget proposes $3.6 billion in fiscal year 2003 to establish approximately 1.3 million personal re-employment accounts of up to $3,000 each. States would be able to target this benefit to those unemployed individuals most in need. The accounts could be used to purchase training, child care, transportation, and other services for job-seekers. Workers who become employed within 13 weeks could keep the remaining balance in their account as a re-employment bonus. These accounts will be proposed as part of the administration's Workforce Investment Act [WIA] reauthorization proposal.

- **Job Training:** As part of the Administration's proposal to reauthorize the WIA, the request consolidates three formula grant programs – dislocated workers, adult grants, and the employment service – into a $3.1-billion block grant. It would also focus all of the Labor Department's youth job training programs on out-of-school youth, thereby avoiding overlap with programs operated by the Department of Education. The request terminates funding for the $44-million Youth Opportunities Grants program, which has experienced severe management problems and whose purposes are currently served better by other programs. Overall, $4.95 billion is provided for WIA job training programs, a 2-percent reduction.

- **Funding for the Bureau of International Labor Affairs [ILAB]:** ILAB is reduced from $43 million to $12 million, eliminating the program's grant-making function and refocusing ILAB on its original mission of international research and analysis.

- **Employee Benefits Security Administration [EBSA]:** A 10-percent increase to $129 million is provided to EBSA (formerly the Pension and Welfare Benefits Administration) to provide additional enforcement to safeguard workers' retirement savings and other benefits in the wake of corporate fraud cases, and to expand compliance assistance efforts to educate employers and pension plan administrators on their responsibilities.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Compassion Capital Fund:** A sum of $100 million is provided for social services provided by faith-based and community organizations. This initiative provides funds to public/private partnerships to support charitable organizations in expanding or emulating model social service programs.

- **Mentoring Children of Prisoners:** The budget proposes $50 million for competitive grants for this new program, which aims to serve some of the more than two million children with parents in prison.

- **Head Start:** The President calls for $6.8 billion for Head Start early education programs. The proposal would provide the states with more discretion over Head Start, to improve coordination with state pre-school and other preparatory programs. Under the President's plan, the Head Start program would be moved to the Department of Education in 2005, in order to sharpen the focus on school readiness and teacher training.

- **Safe and Stable Families:** A total of $250 million is provided for the discretionary portion of this program, which promotes States' ability to strengthen families and to promote child safety and well being. This program also helps to promote adoption and to provides post-adoption support to families.

PROGRAMS IN OTHER AGENCIES

- **Freedom Corps:** A sum of $962 million is provided for the Corporation for National and Community Service [CNCS], which would support a target enrollment of 75,000 AmeriCorps members. Of the request, $118 million would be used to place senior citizens and other volunteers in community activities geared toward strengthening homeland security. These activities would involve public safety, public health, disaster relief, and emergency preparedness.

  Also proposed are two new mentoring initiatives: a $100-million program in the Department of Education to support school-based mentoring of at-risk middle school students; and a $50-million program in the Department of Health and Human Services to mentor the children of prisoners.

- **Institute of Museum and Library Services [IMLS]:** A total of $242 million is provided for IMLS, an increase of $32 million over the 2003 request. The proposal includes a $15-million increase for the Library State Grants program; a $10-million increase for the 21st Century Librarian initiative to recruit new library professionals; and a $5 million increase for museum programs.

- **Smithsonian Institution:** The Smithsonian is provided $567 million by the President's budget. This will enable the institution to compensate its more than 4,000 employees and maintain its buildings, while continuing extensive renovation of the National Portrait Gallery and the Smithsonian American Art Museum. It will also support efforts to revitalize the National Museum of American History and to open the National Museum of the American Indian in the Fall of 2004.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

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Department of Education

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red

Expanding E-Government .... Yellow
Budget and Performance Integration .... Red
Elimination of Fraud and Error .... Red
in Student Aid Programs
Faith-Based and Community Initiative .... Yellow

Department of Labor

Human Capital .... Yellow
Competitive Sourcing .... Red
Financial Performance .... Yellow
Expanding E-Government .... Yellow
Budget and Performance Integration .... Yellow
Faith-Based and Community Initiative .... Yellow

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected Function 500 activities.

Department of Education

Adult Education State Grants . Results Not Demonstrated
Comprehensive School Reform .... Adequate
Even Start .... Ineffective
Pell Grants .... Moderately Effective
IDEA Grants for .... Results Not Demonstrated
Infants and Families
IDEA Grants to States ...... Results Not Demonstrated
IDEA Preschool Grants ..... Results Not Demonstrated
National Assessment .... Results Not Demonstrated
National Center for .... Results Not Demonstrated
Education Statistics
Occupational and .... Results Not Demonstrated
Employment Information
Safe and Drug Free Schools State Grants ... Ineffective
Student Aid Administration .... Adequate
Tech-Prep Education State ... Results Not Demonstrated
Grants
Tribally Controlled .... Results Not Demonstrated
Post-Secondary Vocational
and Technical Institutions
TRIO Student Support ...... Results Not Demonstrated
Services
TRIO Upward Bound .... Ineffective
Vocational Education .... Results Not Demonstrated
State Grants
Vocational Rehabilitation State Grants ...... Adequate

Table 16: The President's Budget, Education, Training, Employment, and Social Services (Function 500)
(dollars in millions)

	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	88,484	86,002	86,086	87,530	89,285	91,504	-2.8	0.7
Outlays	86,252	85,336	84,464	85,858	87,497	89,448	-1.1	0.7
Discretionary								
BA	72,294	75,241	76,636	78,222	79,967	82,008	4.1	2.6
Outlays	72,575	72,786	75,456	76,985	78,702	80,535	0.3	2.1
Mandatory								
BA	16,190	10,761	9,450	9,308	9,318	9,496	-33.5	-10.1
Outlays	13,677	12,550	9,008	8,873	8,795	8,913	-8.2	-8.2

Source: Office of Management and Budget. [a]Administration request.

Department of Labor

Bureau of Labor Statistics .... Moderately Effective
Community Service .... Results Not Demonstrated
Employment for Older Americans
Dislocated Worker .... Results Not Demonstrated
Assistance
Federal Employees .... Moderately Effective
Compensation
Act

Occupational Safety and Health Administration	Adequate
Office of Federal Contract Compliance Programs	Results Not Demonstrated
Pension and Welfare Benefits Administration	Results Not Demonstrated
Trade Adjustment Assistance	Results Not Demonstrated
Youth Activities	Results Not Demonstrated

Department of Health and Human Services

Head Start	Results Not Demonstrated
State and Community-Based Services on Aging	Results Not Demonstrated

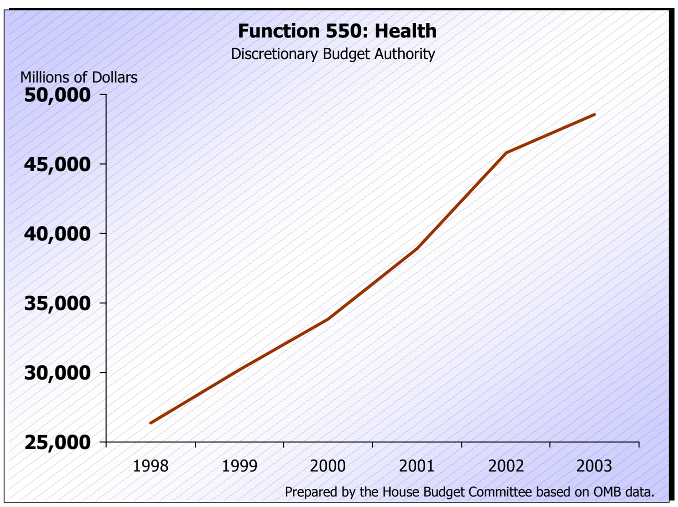
Corporation for National and Community Service

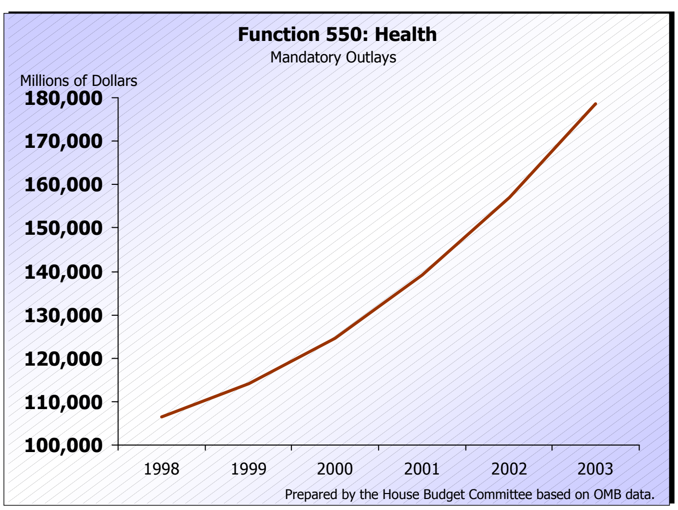
AmeriCorps	Results Not Demonstrated

HEALTH
(FUNCTION 550)

SUMMARY

The Health function consists of health care services, including Medicaid, the Nation's major program covering medical and long-term care costs for low-income persons; the State Children's Health Insurance Program [SCHIP]; health research and training, including the National Institutes of Health [NIH] and substance abuse and treatment; and consumer and occupational health and safety, including the Occupational Safety and Health Administration.





Under the President's budget proposal, Function 550 for fiscal year 2004 includes $247.3 billion in total budget authority. This represents a net increase of $18.6 billion, or 8.2 percent, over the 2003 level (assuming the President's proposed fiscal year 2003 levels were adopted).

Total outlays of $246.6 billion are proposed, representing a net increase of $23.5 billion, or 10.5 percent, over the 2003 level. The compound growth rate in budget authority over the past 5 years (1999-2004) is 11.7 percent. Medicaid would be funded at $182.5 billion, an increase of $20.0 billion, or 12.3 percent, over the 2003 level. In the President's budget, Medicaid would represent about 74 percent of the spending in this function in fiscal year 2004. The NIH would be funded at $27.9 billion, an increase of $549 million, or 2.0 percent, over the 2003 level.

KEY COMPONENTS

The President's budget includes the following initiatives:

- **Medicaid Reform:** The Medicaid reform proposal would be a option to the States and would allow States to provide health insurance coverage for new populations, while preserving regular Medicaid for mandatory Medicaid populations. The budget provides a short-term increase in funding of $3.25 billion in fiscal year 2004 and $12.7 billion over 7 years for Medicaid reform. During the final 3 years of the 10 year proposal, States would receive $12.7 billion less than estimated baseline spending, resulting in a budget neutral proposal over 10 years. States would be required to maintain their current Medicaid spending levels.

Currently, about one-third of Medicaid recipients are not required by Federal Medicaid law to be covered under a State's Medicaid plan. These optional categories of recipients are covered at the discretion of the States.

The Bush proposal would give the States flexibility to redesign benefits, co-payments, premiums and other items that in the past would have required them to obtain a waiver from the Department of Health and Human Services. More of the Nation's uninsured could be covered under the reform proposal, especially adults without children.

- **National Institutes of Health [NIH]:** In fiscal year 2003, the President's budget completed the 5-year doubling of the NIH budget. The fiscal year 2004 budget proposes $27.9 billion for the NIH, an increase of $549 million, or 2 percent. But the fiscal year 2003 NIH budget included $1.4 billion in non-recurring expenses for facilities construction and anthrax vaccine procurement. As a result, under the fiscal year 2004 budget, the NIH research programs and support will be able to have a $1.9 billion, or 7.5 percent, increase.

- **Bio-terrorism:** Within the Department of Health and Human Services, the budget proposes new authority to speed the arrival of medications and vaccines. Experts at the NIH would have increased flexibility to hire the best experts, make special purchases, and overcome challenges that can be barriers to quick progress in converting basic scientific discoveries into usable products. The Food and Drug Administration would receive new authority to work more proactively with researchers and industry to allow emergency-use authorization licensure of these countermeasures.

- **Global AIDS:** To combat the spread of AIDS and provide treatment for those with the disease, the budget provides $15 billion over 5 years for DHHS and the Agency for International Development. In fiscal year 2004, the Department of Health and Human Services would receive a sum of $627 million for this purpose.

Table 17: The President's Budget, Health (Function 550)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	228,644	247,281	267,856	292,037	313,192	336,163	8.2	8.0
Outlays	223,068	246,579	266,967	291,177	311,702	334,683	10.5	8.5
Discretionary								
BA	48,532	49,620	50,658	51,786	52,930	54,274	2.2	2.3
Outlays	44,409	48,229	49,845	50,973	52,040	53,195	8.6	3.7
Mandatory								
BA	180,112	197,661	217,198	240,251	260,262	281,889	9.7	9.4
Outlays	178,659	198,350	217,122	240,204	259,662	281,488	11.0	9.5

Source: Office of Management and Budget. [a]Administration request.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

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Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has serious flaws.

The Department of Health and Human Services

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected health and human services programs and activities.

Center for Biologics Evaluation and Research	Results Not Demonstrated
Center for Devices and Radiologic Health [CDRH]	Results Not Demonstrated
Center for Drug Evaluation and Research [CDER]	Results Not Demonstrated
Center for Veterinary Medicine [CVM]	Results Not Demonstrated
Children's Mental Health Services	Moderately Effective
Chronic Disease - Breast and Cervical Cancer	Results Not Demonstrated
Chronic Disease - Diabetes	Results Not Demonstrated
Domestic HIV/AIDS Prevention	Results Not Demonstrated
Health Alert Network	Adequate
Agency for Healthcare Research and Quality [AHRQ]	Moderately Effective
Translating Research Into Practice [TRIP]	Adequate
Health Care Fraud and Abuse Control	Results Not Demonstrated
Health Center	Effective
Ryan White AIDS Block Grant	Adequate
Health Professions	Ineffective
Maternal and Child Health Block Grant	Moderately Effective
Indian Health Service's Federally-Administered Activities	Moderately Effective
IHS Sanitation Facilities Construction Program	Moderately Effective
State Children's Health Insurance Program	Moderately Effective

MEDICARE
(FUNCTION 570)

SUMMARY

This budget function reflects the Medicare Part A Hospital Insurance [HI] Program, Part B Supplementary Medical Insurance [SMI] Program, and premiums paid by qualified aged and disabled beneficiaries. It also includes the “Medicare+Choice” Program, which covers Part A and Part B benefits and allows beneficiaries to choose certain private health insurance plans. Medicare+Choice plans may include health maintenance organizations, preferred provider organizations, provider-sponsored organizations and private fee-for-service plans. In addition to covering all Medicare-covered services, such plans may add benefits or reduce cost-sharing required by the traditional Medicare program.

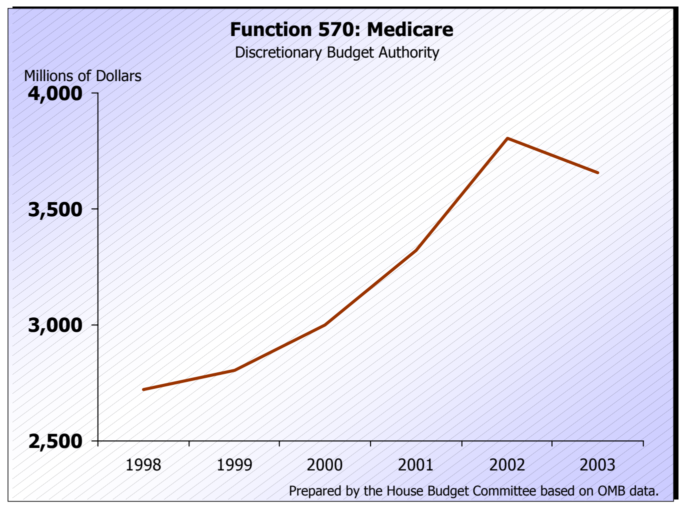
For fiscal year 2004, the President’s budget provides $258.6 billion in budget authority [BA], an increase of $13.6 billion or 5.6 percent over last year, and $258.9 billion in outlays, an increase of $14.2 billion or 5.8 percent over last year. Over the period 1999-2004, total BA in Function 570 rise from $190.6 billion to $258.6 billion, a 6.3 percent average annual increase. Total outlays rise from $190.4 to $258.9 billion over the same period, also a 6.3 percent average annual increase. Medicare actually experienced a decrease in spending from 1998 to 1999, although that slowdown was in contrast to the first half of the 1990s when Medicare spending experienced approximately 13-percent average annual growth rates.

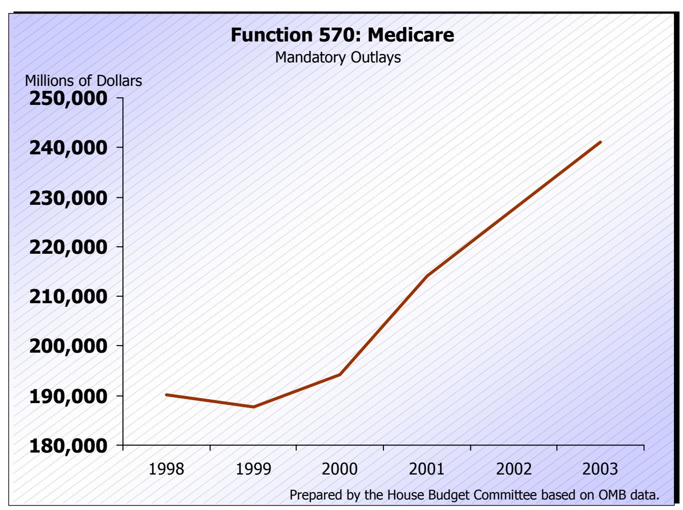
THE PRESIDENT’S MEDICARE PROPOSAL

Principles for Reform

The President’s budget includes $400 billion over 10 years for Medicare reform, protection against catastrophic costs, and prescription drug coverage. Details of the President’s Medicare and prescription drug reform proposal are not included in the President’s fiscal year 2004 budget. Instead, the administration has said it intends to roll out details of the plan separately in the near future. Nonetheless, the President’s Budget does include “Principles for Strengthening and Improving Medicare,” and a few other items of note.

The President’s budget suggests eight principles for strengthening and improving the Medicare program.





These principles are:

- All seniors should have the option of a subsidized prescription drug benefit as part of modernized Medicare.
- Modernized Medicare should provide better coverage for preventive care and serious illnesses.
- Today's beneficiaries and those approaching retirement should have the option of keeping the traditional plan with no changes.
- Medicare should make available better health insurance options, like those available to all Federal employees.
- Medicare legislation should strengthen the program's long-term financial security.
- The management of the government Medicare plan should be strengthened to improve care for seniors.
- Medicare's regulations and administrative procedures should be updated and streamlined, while instances of fraud and abuse should be reduced.
- Medicare should encourage high-quality health care for all seniors.

Reform Components

- **Prescription Drug Benefit:** The prescription drug benefit contained within the President's budget would protect beneficiaries against high drug expenses and provide additional assistance to low-income beneficiaries. Beneficiaries would have a choice of plans that offer the prescription drug benefit.
- **Medicare+Choice:** The President's budget proposes to move the Medicare+Choice program from what is called an "administered pricing system" to a market-based system. An administered pricing system administratively sets payments to providers, while a market-based system allows the marketplace to determine the price for goods and services. As the President notes, Medicare+Choice is shrinking due to insufficient payments (through Medicare's administered pricing system) that bear little relation to increasing health care costs.
- **Medicare Fee-For-Service:** The President's budget proposes to reform Medicare beneficiary cost-sharing (e.g. deductibles and coinsurance) and provide catastrophic coverage to protect seniors against serious illnesses. In addition, the President's budget proposes to increase physician payments, "monitor payment issues for other providers," and possibly reduce payments for certain providers that are determined to be receiving excess payments through the Medicare program.
- **Fundamental Reform To Address Medicare's Financial Liabilities:** According to the President's budget: "Given the financial challenges faced by Medicare in the future, the Congress must be extremely careful that legislative changes not add to the long-term unfunded promises faced by the program . . . Versions of Medicare legislation considered in the 107th Congress would have made progress in expanding beneficiary access to prescription drug coverage, but no bill met the President's principles for strengthening and improving Medicare."

  Legislation considered in the 107th Congress included H.R. 4954, which passed the House of Representatives on 28 June 2002 and provided $320 billion in prescription drug benefits and $30 billion for increased provider payments.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda [PMA]

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report). The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has serious flaws.

The Department of Health and Human Services

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Red
Budget and Performance Integration . . . . Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable.

Below is a summary of the administration's conclusions concerning selected Medicare programs and activities.

Medicare Integrity Program . . . . Effective

Table 18: The President's Budget, Medicare (Function 570)
(dollars in millions)

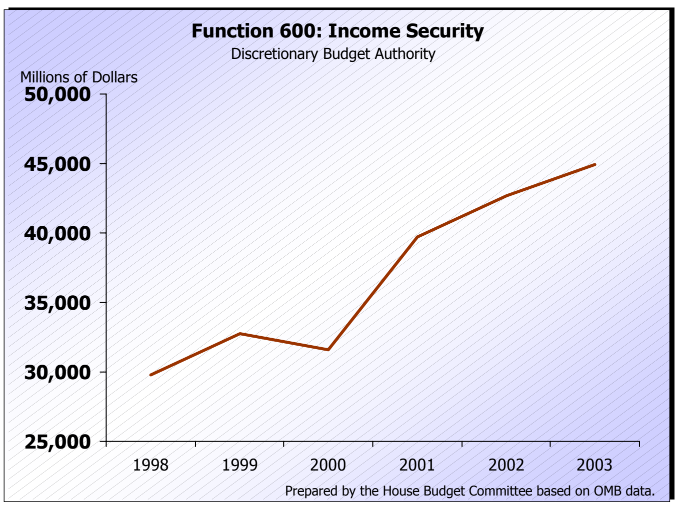
							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	245,021	258,642	275,889	305,326	327,165	349,412	5.6	7.4
Outlays	244,667	258,878	275,869	304,893	327,410	349,396	5.8	7.4
Discretionary								
BA	3,658	3,733	3,807	3,886	3,977	4,085	2.1	2.2
Outlays	3,674	3,698	3,756	3,836	3,925	4,030	1	1.9
Mandatory								
BA	241,363	254,909	272,082	301,440	323,188	345,327	5.6	7.4
Outlays	240,993	255,180	272,113	301,057	323,485	345,366	5.9	7.5

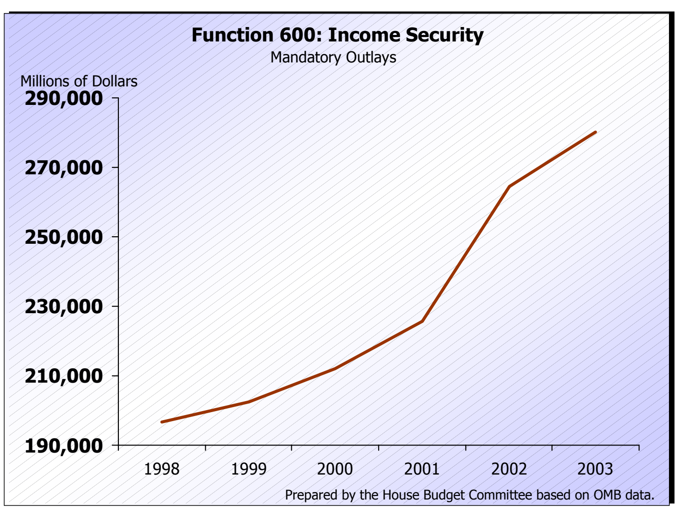
Source: Office of Management and Budget. [a]Administration request.

INCOME SECURITY
(FUNCTION 600)

SUMMARY

This function includes most of the Federal Government's income support programs. These include: general retirement and disability insurance (excluding Social Security) – mainly through the Pension Benefit Guaranty Corporation [PBGC] – and benefits to railroad retirees.





Other components are Federal employee retirement and disability benefits (including military retirees); unemployment compensation; low-income housing assistance, including Section 8 housing; food and nutrition assistance, including food stamps and school lunch subsidies; and other income security programs. This last category includes: Temporary Assistance to Needy Families [TANF], the government's principal welfare program; Supplemental Security Income [SSI]; spending for the refundable portion of the Earned Income Credit [EIC]; and the Low Income Home Energy Assistance Program [LIHEAP]. Agencies involved in these programs include the Departments of Agriculture, Health and Human Services, Housing and Urban Development, the Social Security Administration (for SSI), and the Office of Personnel Management (for Federal retirement benefits).

The President's budget proposes spending of $322.9 billion in budget authority and $325.0 billion in outlays for fiscal year 2004 for this function. This represents a 1.1 percent decline in BA and a 1.5 percent decline in Outlays relative to fiscal year 2003. Over the period 1999-2004, budget authority in the function has had an average annual increase of 9.9 percent. During the same period, outlays have grown an average of 5.9 percent.

Budget authority and outlays for the function decline relative to fiscal year 2003 primarily because of the termination of extended Federal Unemployment Insurance Benefits in May of 2003. Additionally, the reauthorization of the Contingency Fund within the Temporary Assistance to Needy Families [TANF] program in fiscal year 2003 causes a one-time spike in BA and outlays during fiscal year 2003 relative to the 5-year period for which the program is reauthorized.

Major initiatives include the reauthorization of the TANF program, the successful welfare reform initiative begun in 1996. The budget assumes that Congress will act to reauthorize TANF for another 5 years starting in fiscal year 2003. Also, the administration proposes a major initiative to increase minority home ownership, and proposes to revamp section 8 housing vouchers into a block grant to states in order to increase flexibility within the program and to increase housing opportunities for low income families. The administration also proposes to crack down on erroneous payments within programs such as the Earned Income Credit and the School Lunch program to ensure that non-eligible individuals do not siphon funds from these programs illegally. This effort is not aimed at achieving savings per se, but rather seeks to limit distortions to other programs which are caused by such overpayments. For example, participation by ineligible individuals in free school lunches has the effect of diverting other Federal program funds, such as Title I education funding, from the neediest schools. Monitoring compliance with eligibility rules should correct this improper diversion of funding.

KEY COMPONENTS

- **WIC:** The President's budget proposes $4.769 billion in budget authority for the Special Supplemental Feeding Program for Women, Infants and Children [WIC]. The President's proposed funding level should be sufficient to serve all 7.8 million of the WIC-eligible population. In the event that additional funding is necessary to meet this goal, the budget contains a $150 million contingency fund to meet additional unanticipated needs. The budget proposal for WIC includes a $5 million initiative to combat childhood obesity, and $20 million to support breast feeding. Management initiatives include $5 million for an evaluation of the program, and $30 million to improve state management information systems.

- **Food Stamps:** The budget proposes $25.6 billion in BA for the Food Stamp Program. Participation in the program is assumed to increase 3 percent over fiscal year 2003. Last year's farm bill included a provision proposed by the administration to restore food stamp eligibility to certain noncitizens made ineligible under the welfare reform bill of 1996. The administration's effort to reduce erroneous payments seeks to reduce the food stamp error rate from the 2001 level of 8.7 percent of all food stamp benefits to 7.8 percent in 2004. If this is achieved, it will generate $90 million in savings in the food stamp program in 2004.

- **Child Nutrition Programs:** The budget provides $11.8 billion in funding for child nutrition programs such as the School Lunch and Breakfast programs, Summer Feeding, and the Child and Adult Care Food Program [CACFP]. This amount is sufficient to support anticipated participation levels and food costs within these programs. These programs are scheduled for reauthorization in 2004, and as part of the reauthorization process, the administration will seek to establish a new system to improve the accuracy of eligibility determinations for free and reduced price meals. This data is currently used not only to determine allocation of $7 billion in meal reimbursement subsidies within child nutrition programs, but to target three times that amount of funding in education grants to low income children and schools. The administration wants to ensure that participation by ineligible individuals in the free and reduced price meal programs does not inadvertently redirect resources away from the neediest children and schools.

- **Temporary Assistance to Needy Families [TANF]:** The budget assumes that the TANF block grant, as well as the related child care entitlement to states and other elements of the 1996 welfare reform law will be reauthorized for five years during fiscal year 2003. As part of that reauthorization process, the budget provides an additional $1.4 billion for these programs over 5 years (2004-2008) above the baseline, which is consistent with the new spending levels contained in the reauthorization bill which passed the House in 2002. The budget does not assume the enactment of an additional $1 billion over 5 years in new mandatory child care funding which was included in the House bill and paid for with a revenue offset. The administration, however, does not oppose this provision of the House bill. The budget provides $17.6 billion for the TANF block grant in 2004. This maintains the funding level for the block grant at the level of the initial 6 years of the TANF program.

  An anomaly associated with reauthorizing TANF's contingency fund gives the appearance of a $1.4 billion spike in TANF spending in 2003. But this reflects the scoring of the reauthorization of TANF's 5-year contingency fund under credit reform, which requires anticipated costs of Federal loan programs to be shown in the first year in which they are authorized. The funding levels provided for TANF reflect the relative stability of welfare caseloads, which increased only 1 percent despite the economic downturn and increased unemployment levels. Though poverty rates increased slightly between 2000 and 2001, poverty is still near record lows for single-mother households and African-American families. More than 3 million children have left poverty since the TANF program was enacted in 1996.

- **Child Care:** The budget provides $2.7 billion for the mandatory child care entitlement to States, consistent with the current level of the program. The budget also assumes $2.1 billion in discretionary funding for child care, also consistent with current program levels.

- **Child Support Enforcement:** The budget provides $4.5 billion to assist States with the administrative costs of enforcing court ordered child support. In fiscal year 2002, child support collections reached a record level of $20 billion, including a record $1.6 billion in overdue child support collected from Federal income tax refunds. The budget anticipates a number of changes proposed for the program as part of the reathorization of TANF. These include providing incentives to States to pass through more of child support collections to custodial parents currently on welfare, as well as a greater percentage of child care arrearages collected on behalf of former welfare recipients. Also included are proposals to increase collection of delinquent child support through tougher sanctions, and new spending of $218 million to improve automated enforcement mechanisms such as database compilation and data matching.

- **Foster Care and Adoption Assistance:** The budget requests $6.9 billion in 2004 for these programs, including the Independent Living program which provides assistance to youths who are aging out of foster care. Of the total, $5.0 billion is for the foster care program, which provides maintenance payments to families caring for foster children. This amount includes a $238 million increase from the 2003 level, and is consistent with the President's legislative proposal to increase state flexibility within the program by offering foster care funding in the form of an optional block grant. States which take advantage of the block grant will obtain administrative simplification and greater flexibility to develop strategies to assist at-risk families and prevent family breakup and deter child abuse and neglect before it occurs.

- **LIHEAP:** The budget provides $2 billion in 2004 for the Low Income Home Energy Assistance Program [LIHEAP]. Of that amount, $300 million is reserved in an emergency contingency fund which requires a Presidential declaration of an emergency in order to be spent. Total funding for LIHEAP is $300 million above the President's request for fiscal year 2003.

- **Home Ownership Challenge:** The President's budget proposes a major initiative to increase first-time minority home ownership by 5.5 million families through 2010, and to continue the current historic high home ownership rate, currently at 68 percent of all households. The budget provides $200 million to help 40,000 families make down payments on their first homes, and increases the ability of public housing authorities to use section 8 voucher funds for down payment assistance to public housing families seeking to purchase their own homes. The budget increases funding for housing counseling services by $10 million to $45 million. Counseling services help families to improve poor credit ratings in order to qualify for home ownership, as well as educate consumers about loan products and services, and how to avoid predatory lending practices. The budget provides a 5-percent increase in funding for the HOME program, which States use to assist homebuyers in financing costs of land acquisition, construction, rehabilitation, or downpayments.

  The budget also provides organizations such as Habitat for Humanity with $65 million in seed money for programs that expand the supply of affordable housing through self-help and volunteer labor. Additionally, the budget includes a tax credit of up to 50 percent of the cost of constructing or rehabilitating new or existing homes, provided that the homebuyers have incomes below 80 percent of the area median.

- **Section 8 Housing Assistance:** The budget proposes a major change to the section 8 program which would replace the Section 8 voucher program with a block grant to states called Housing Assistance to Needy Families [HANF]. Project-based Section 8 assistance would remain unchanged.

  Total funding for both the new block grant plus project based assistance for fiscal year 2004 is proposed to be $17.1 billion, an increase of $700 million over the 2003 request. Of the 2004 amount, $12.5 billion would fund the new HANF block grant, while $4.5 billion would be provided in project-based assistance. The President's proposed block grant would be designed to align the program more closely with the nation's primary welfare program, the Temporary Assistance to Needy Families block grant [TANF] in areas like eligibility and administration. Additionally, it seeks to better assist low-income households in locating safe and affordable housing by allowing states to tailor their programs to fit the needs of particular communities. For example, States with large cities which have expensive rental housing could maintain a higher rent ceiling for those areas.

  The block grant is anticipated as well to increase the use of Section 8 funds, since many persons who currently obtain Section 8 vouchers are unable to use them since they cannot find suitable housing before the certificate expires. Last year, more than $1.7 billion worth of vouchers went unused by Pubic Housing Authorities for this and other reasons. Under the proposed block grant, states will be required to serve at least as many households as are currently served by the section 8 voucher program.

- **Public Housing:** The budget increases funding for the Public Housing Operating Fund in 2004 by $29 million to $3.6 billion. These funds are used to meet the day to day operating expenses of housing projects administered by local public housing authorities [PHAs]. The budget also contains a proposal from the administration's 2003 budget to encourage public housing authorities to obtain private financing to meet capital improvement needs. As part of that proposal, funding for the Public Housing Capital Fund is requested at $2.6 billion for fiscal year 2004.

- **HOPE VI and HOME:** The budget requests no funds for the HOPE VI program, which revitalized and demolished severely distressed public housing units. This is a reduction of $574 million relative to fiscal year 2003. The administration notes that HOPE VI was supposed to be a temporary program over a 10-year period with a goal of demolishing 100,000 units of uninhabitable public housing units. That period has since elapsed, and more than 117,000 distressed units were demolished under the program. Thus, the purpose of the program has been fulfilled, and other means of increasing the stock of affordable housing, such as the HOME program, are more efficient uses of available funds. The budget increases HOME funding by $113 million above the 2003 request for a total of $2.2 billion.

- **Federal Retirement:** The budget contains a proposal to reduce payments made by the Postal Service to the Civil Service Retirement and Disability Trust fund in response to evidence that the Postal Service may soon be overfunding accruing retirement benefits for its employees. This is due to higher than anticipated prior yields on past pension investments. The proposal has an on-budget cost of $2.7 billion in fiscal year 2004, and a 5-year cost of $14.9 billion.

- **Unemployment Insurance Administration:** The budget proposes turning over to States responsibility for administering their Unemployment Insurance systems. Currently, States fund unemployment insurance benefits, but administrative costs are provided by the Federal Government. The budget provides States with $5.4 billion over five years to transition to full state responsibility for administering the program. At the same time, the Federal Unemployment Tax Act [FUTA] payroll tax on employers would be reduced to 0.2 percent on the first $7,000 paid in wages by 2009.

- **Unemployment Insurance Benefits:** The budget provides for $39.8 billion in Unemployment Insurance Benefit payments in fiscal year 2003, a decline of $14 billion relative to 2003. The decline results in part because extended Federal Unemployment Insurance benefits enacted on January 8, 2003 will terminate May 31, 2003, and because the administration's economic assumptions expect a drop in the unemployment rate of 0.2 percent in 2004.

- **FECA Reform:** The budget proposes reforms of the Federal Employees Compensation Act [FECA], the workers compensation program for federal employees, which will generate savings of $10 million in 2004 and $60 million over 5 years.

  Among the reforms are charging the full cost of employee benefits to the employing agency to create incentives for agencies to prove safer workplaces, instituting a waiting period before benefits are paid to discourage frivolous claims, and paying slightly higher benefits to all claimants, while eliminating the practice of providing higher benefit levels to employees with dependents versus those with no dependents, despite identical injuries and wage losses. The proposal also eliminates an incentive for older claimants to remain on the FECA rolls once they reach retirement age by paying beneficiaries over 65 the equivalent benefit they would have received from their Federal retirement program.

  This proposal would apply to new claimants only, and holds harmless all current beneficiaries.

- **Black Lung Disability Trust Fund:** The budget contains a proposal to amortize $9 billion in debt to the Treasury contained within the Black Lung trust fund. This debt was originally incurred when the trust fund was initially created, and the dedicated tax which funded benefits was insufficient to pay all benefit claims. At that time, the trust fund borrowed from the Treasury to pay benefits. Currently, the dedicated tax generates enough revenue to pay benefits and program administration, but not to pay off this accrued debt. The proposal would generate an intergovernmental transfer of $1.9 billion in 2004 between the Trust Fund and the Treasury.

- **Supplemental Security Income [SSI]:** The budget seeks to reduce erroneous overpayments within SSI by providing $1.4 billion to conduct Continuing Disability Reviews [CDRs] of SSI Disability recipients to ensure that they remain sufficiently disabled in order to remain eligible for benefits, as well as non-disability redeterminations to verify that SSI recipients continue to have incomes and resources below the threshold for program eligibility. Additionally, the administration proposes to review up to 50 percent of new favorable SSI disability determinations prior to initiating payments to increase payment accuracy. The budget assumes savings of $194 million over 5 years from these reviews.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report). The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has serious flaws.

The Department of Housing and Urban Development

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Agriculture

National School Lunch Program . . . . . Results Not Demonstrated

Department of Health and Human Services

Foster Care . . . . Results Not Demonstrated
Refugee and Entrant Assistance . . . . Adequate

Department of Housing and Urban Development

HOME Investment Partnerships Program . . . . Moderately Effective
Housing for the Elderly . . . . . Results Not Demonstrated
Housing for Persons with Disabilities . . . . Results Not Demonstrated
Housing Vouchers [Section 8] . . . . Moderately Effective
Native American Housing Block Grant . . . Results Not Demonstrated
Project Based Rental Assistance . . . . Ineffective

Department of Labor

Federal Employee Compensation Act [FECA] . . . . Moderately Effective

Department of the Treasury

Earned Income Tax Credit Compliance . . . . . Ineffective

Social Security Administration

Supplemental Security Income [SSI] Income for the Aged . . . . Moderately Effective

Office of Personal Management

Federal Employees Group Life Insurance Program [FEGLI] . . . . Results Not Demonstrated
Federal Employees Retirement Program . . . . Results Not Demonstrated

Table 19: The President's Budget, Income Security (Function 600)
(dollars in millions)

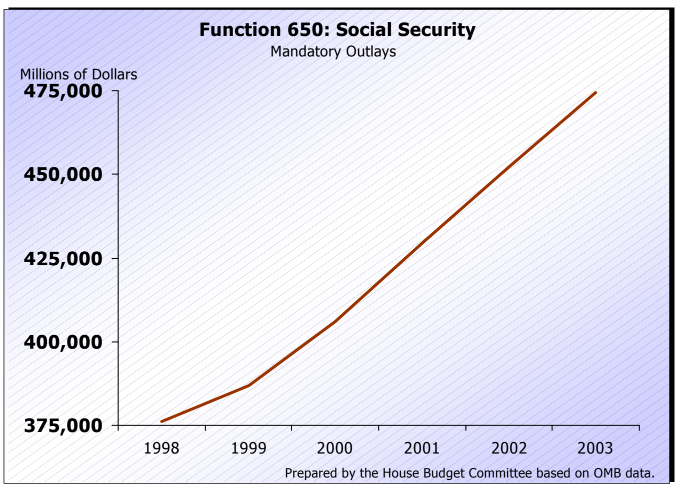
	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Average 2004-2008
Function Total								
BA	326,498	322,891	337,689	346,175	354,012	369,859	- 0.4	2.8
Outlays	330,120	324,962	340,935	349,371	356,692	369,144	- 0.5	2.6
Discretionary								
BA	44,949	46,194	47,056	48,012	48,210	48,462	2.8	1.0
Outlays	49,994	51,244	52,992	54,263	54,383	53,661	2.5	0.9
Mandatory								
BA	281,549	276,697	290,633	298,163	305,802	321,397	- 1.7	3.0
Outlays	280,126	273,718	287,943	295,108	302,309	315,483	- 2.3	2.9

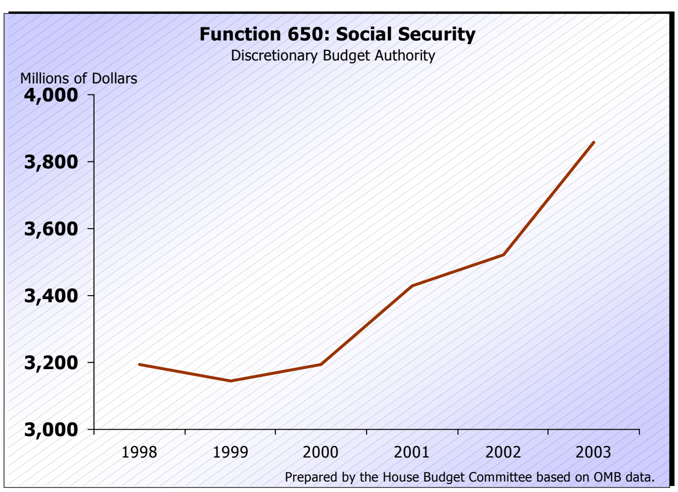
Source: Office of Management and Budget. [a]Administration request.

SOCIAL SECURITY
(FUNCTION 650)

SUMMARY

Function 650 consists of the Social Security Program, or Old Age, Survivors, and Disability Insurance [OASDI]. It is the largest budget function in terms of outlays, and provides funds for the Government's largest entitlement program. Under provisions of the Congressional Budget Act and the Budget Enforcement Act, Social Security trust funds are considered to be "off budget." But a small portion of spending within function 650 – specifically a portion of the budget for the Office of the Inspector General of the Social Security Administration [SSA], the quinquennial adjustment for World War II veterans, and general fund transfers of taxes paid on Social Security benefits – are on budget.





For fiscal year 2004, the President's Budget provides $498.8 billion in budget authority [BA], an increase of $18.9 billion or 3.9 percent over last year, and $497.3 billion in outlays, an increase of $18.8 billion or 3.9 percent over last year. Over the period 1999-2004, total BA in Function 650 rise from $391.1 billion to $498.8 billion, a 5 percent average annual increase. Total outlays rise from $390.0 to $497.3 billion over the same period, also a 5 percent average annual increase.

KEY COMPONENTS

The President's budget proposes no changes to the financing or benefit structure of the Social Security program.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda [PMA]

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The Social Security Administration

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Yellow
Budget and Performance Integration . . . . Yellow

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system. The rating are effective, moderately effective, adequate, and ineffective. They are used to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary concerning selected Social Security programs and activities.

Disability Insurance Program . . . . Moderately Effective
Supplemental Security Income Aged Program . . . . Moderately Effective

Table 20: The President's Budget, Social Security (Function 650)
(dollars in millions)

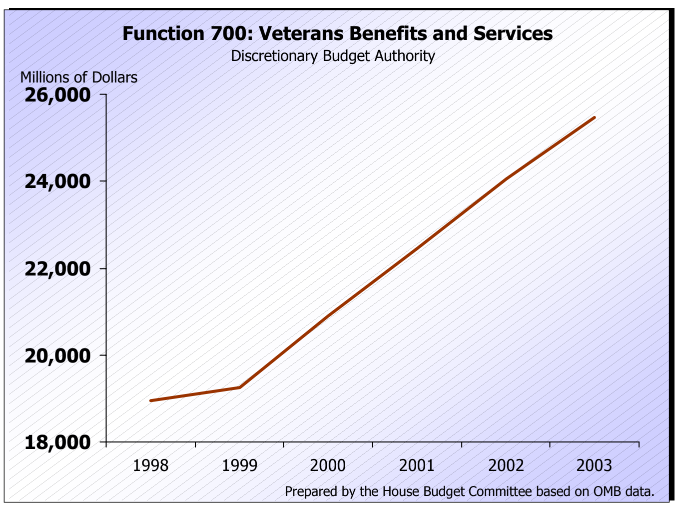
							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	479,913	498,844	517,511	539,706	565,865	594,612	3.9	4.4
Outlays	478,471	497,299	515,973	537,557	563,238	591,828	3.9	4.3
On-budget								
BA	13,067	14,032	14,440	15,370	16,672	18,183	7.4	6.8
Outlays	13,067	14,032	14,441	15,371	16,672	18,184	7.4	6.8
Off-budget								
BA	466,846	484,812	503,071	524,336	549,193	576,429	3.8	4.3
Outlays	465,404	483,267	501,532	522,186	546,566	573,644	3.8	4.3

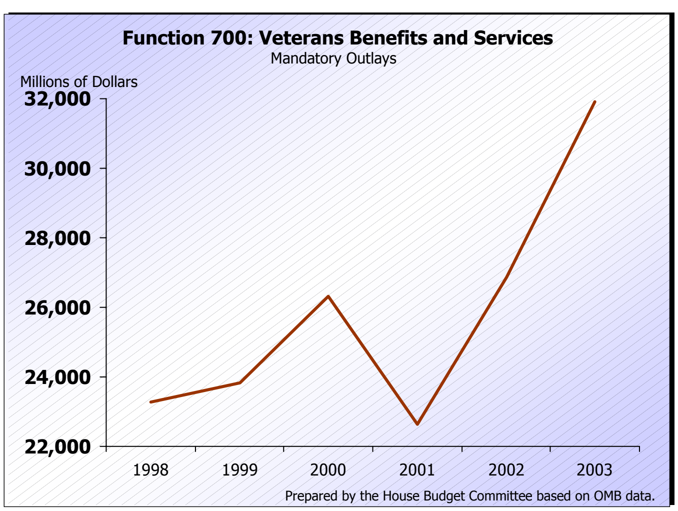
Source: Office of Management and Budget. [a]Administration request.

VETERANS BENEFITS AND SERVICES
(FUNCTION 700)

SUMMARY

The Veterans Benefits and Services function includes funding for the Department of Veterans Affairs [VA], which provides benefits to veterans who meet various eligibility rules. Benefits range from income security for veterans, principally disability compensation and pensions; veterans education, training, and rehabilitation services; hospital and medical care for veterans; and other veterans' benefits and services, such as home loan guarantees.





Under the President's budget proposal, Function 700 [Veterans Benefits and Services] for fiscal year 2004 includes $61.6 billion in total budget authority. This represents a net increase of $3.8 billion, or 6.6 percent, over the 2003 level (assuming the President's proposed fiscal year 2003 levels were adopted). Total outlays of $62.0 billion are proposed, representing a net increase of $5.0 billion, or 8.7 percent, over the 2003 level. The average growth rate over the past 5 years (1999-2004) is 6.9 percent. Veterans medical care would be funded at $25.4 billion, an increase of $2.6 billion, or 11 percent, over the 2003 level. Medical care collections would provide an additional $2.1 billion (an increase of $525 million) for VA medical care.

KEY COMPONENTS

The President's budget includes the following initiatives:

- **Refocusing Medical Care Resources:** The emphasis would be on treating veterans with military disabilities, low-income or special needs. The VA assigns veterans receiving medical care to one of eight priority levels. Veterans with military disabilities, low-income or special needs are given higher priority levels in lin with VA's core mission. Veterans without these characteristics fall into the lowest priority levels [Priority Levels 7 and 8]. The budget assumes that, in early 2003, Priority Level 8 veterans will not be able to enroll if they are not yet using VA medical care.

  But Priority Level 8 veterans currently enrolled will not lose that status. Priority Level 7 and Priority Level 8 veterans will pay an annual enrollment fee and increased drug copayments.

Processing Claims Accurately and Quickly: The budget proposal seeks to guarantee that veterans' disability claims are processed accurately and quickly, meeting the timeliness goal in claims processing set by Secretary Principi.

- **Meeting Burial Demands:** Funding a major expansion in cemeteries to prepare for increased burial demands. The VA's goal is to ensure compassionate and good service, while searching for more efficient ways to meet increased burial demands.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda [PMA]

The President's Management Agenda [PMA] is a means of evaluating the management of Federal agencies (it is more fully discussed in a separate section in this report).

The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has serious flaws.

The Department of Veterans Affairs

Human Capital . . . . Red
Competitive Sourcing . . . . Red
Financial Performance . . . . Red
Expanding E-Government . . . . Yellow
Budget and Performance Integration . . . . Yellow

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative. PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected veterans programs and activities.

Burial Benefits . . . . Moderately Effective
Disability Compensation . . . . Results Not Demonstrated
Medical Care . . . . Results Not Demonstrated

Table 21: The President's Budget, Veterans Benefits and Services (Function 700)
(dollars in millions)

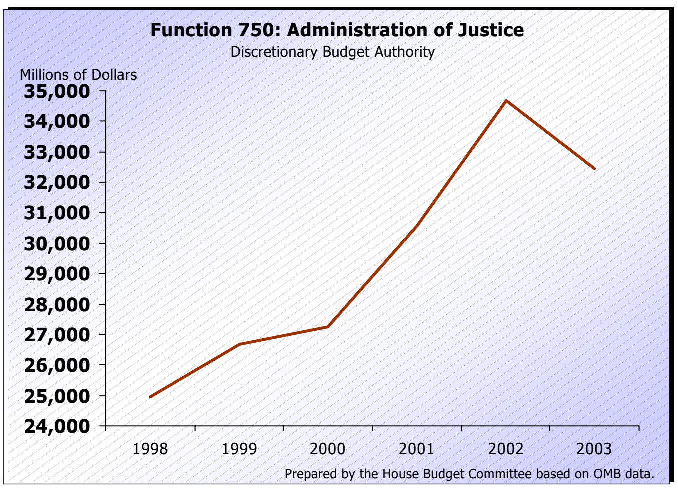
	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	57,724	61,556	64,760	66,903	69,026	71,298	6.6	4.3
Outlays	57,070	62,022	67,018	66,611	65,933	70,944	7.9	4.4
Discretionary								
BA	25,457	28,163	28,627	29,069	29,542	30,122	10.6	3.4
Outlays	25,163	27,903	28,523	28,868	29,388	29,966	10.9	3.6
Mandatory								
BA	32,267	33,393	36,133	37,834	39,484	41,176	3.5	5.0
Outlays	31,907	34,119	38,495	37,743	36,545	40,978	6.9	5.1

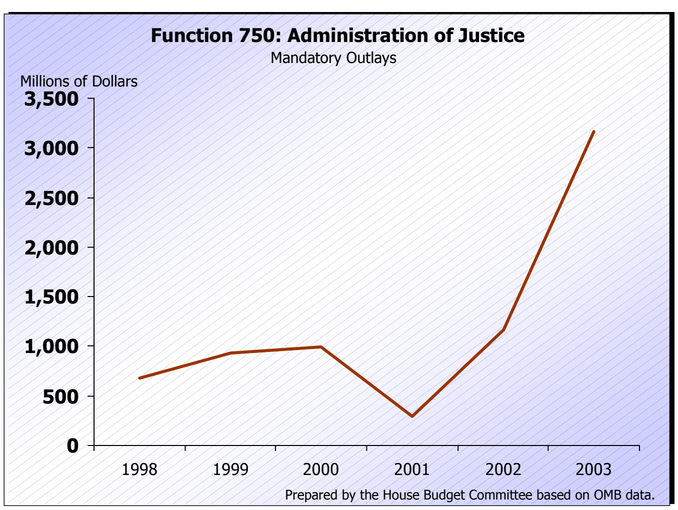
Source: Office of Management and Budget. [a]Administration request.

ADMINISTRATION OF JUSTICE
(FUNCTION 750)

SUMMARY

This function supports the majority of Federal justice and law enforcement programs and activities. Function 750 includes funding for the Department of Justice, much of the newly formed Department of Homeland Security [DHS], as well as the financial law enforcement activities of the Department of the Treasury, Federal courts and prisons, and criminal justice assistance to State and local governments.





The President's budget requests $38.8 billion in budget authority [BA] and $39.4 billion in outlays in fiscal year 2004. This represents a 7.7 percent increase in BA and a 9.1 percent increase in outlays relative to fiscal year 2003. Over the period 1999-2004, budget authority in the function has increased an average of 7 percent. In the same period, outlays have grown an average of 8.6 percent. This increase largely reflects the Government's response to the attacks of 11 September 2001 and its commitment to homeland security and fighting terror.

With the enactment of the Homeland Security Act of 2002 [HSA], the Department of Homeland Security was created and transferred all or part of 22 agencies or programs with missions relevant to contending with the continuing potential for terrorist attacks. The President's budget makes the nation's commitment to homeland security and fighting terror a top funding priority, specifically those responsible for securing the Nation's borders, enhancing Federal, State, and local law enforcement efforts, stopping terrorist financing, and bringing terrorist conspirators to justice.

DEPARTMENT OF HOMELAND SECURITY

With the enactment of the Homeland Security Act of 2002, all or part of 22 Federal agencies and programs have been transferred to the newly created Department of Homeland Security. By consolidating administrative overhead, the administration assumes $30 million in savings, with the potential for additional savings as the transition of the department proceeds.

- **Departmental Management:** The total request for DHS Departmental Management is $540 million. Specific to Function 750, the President provides $40 million in for its counterterrorism fund and $44 million for technology investments.

- **Citizenship and Immigration Services:** Consistent with the Homeland Security Act, the budget includes and funds a new Bureau of Citizenship and Immigration Services [BCIS]. With the majority of BCIS funding provided through mandatory fees, $235 million is requested for discretionary costs.

- **U.S. Secret Service:** The President proposes $1.1 billion in discretionary funding for the Secret Service, a $117-million, or 12-percent, increase over fiscal year 2003. Much of this increase would go toward operations of an Executive Office of the President mail inspection facility, and for election-cycle security costs.

- **Border and Transportation Security [BTS]:** The largest and most complex of the agencies within the new Department of Homeland Security, BTS will merge existing border-related operations into two distinct operating agencies, and retain the Transportation Security Administration in its current structure. The President requests $15.6 billion in fiscal year 2004 for BTS.

  - *Border Activities* - The budget requests $8.1 billion, a $296-million increase over fiscal year 2003, for funding the bureaus responsible for enforcing the Nation's customs and immigration laws. Included in the request is $480 million for critical border protection and integration efforts including the entry-exit system, $313 million for the Automated Commercial Environment [ACE], $150 for non-intrusive inspection technology, $62 million for the Container Security Initiative, and $18 million for the Customs-Trade Partnership Against Terrorism.

  - *Bureau of Customs and Border Protection* - This bureau consists primarily of Border Patrol officers and inspectors from INS, Customs, and Agricultural Quarantine and Inspection. The budget requests $6.5 billion in funding for fiscal year 2004 (excludes $228 million from Function 350). Consistent with the Homeland Security Act, the 30,000-person bureau will focus exclusively on security at and in-between ports-of-entry and will standardize the inspection process and unify the chain of command between existing operations.

  - *Bureau of Immigration and Customs Enforcement* - Consisting of investigative and interior enforcement personnel from the Customs Service, INS, and the Federal Protective Service, the budget requests $2.8 billion for the bureau in fiscal year 2004. The 19,000 person bureau will focus on enforcement of immigration and customs laws and will locate, detain and deport illegal immigrants, track foreign students, and investigate smuggling and other immigration and customs related criminal offenses.

  - *Federal Law Enforcement Training Center [FLETC]* - The budget calls for $122 million for FLETC. Additionally, FLETC will remain a distinct entity within the BTS directorate.

- **Information Analysis and Infrastructure Protection [IAIP]:** A sum of $46 million from Function 750 will be used to support the President's $829 million request for the new IAIP, which will consolidate the incoming agencies into an operationally-cohesive unit but will maintain the National Communications System as a distinct entity.

DEPARTMENT OF JUSTICE

The Department of Justice [DOJ] continues to make the fight against terrorism and homeland security its top priority. Additional focus will go toward the traditional crime fighting mission of the Department. The President's budget provides DOJ with $18.7 billion in discretionary funding, or a $669 million increase, and allows for the hiring of 2,170 new employees.

- **Department of Justice [DOJ] Counter-Terrorism:** Along with increased support for FBI-led interagency task forces intended to dismantle terrorist networks, the budget also contains a number of other initiatives to quickly respond to any potential terrorist activity. These initiatives include: $28 million for new agents and other staff specifically responsible for investigating terrorist acts; $60 million for cyber crime investigations, including attacks against the nation's critical infrastructure; $24 million for FBI response units, such as aviation support, crisis response and hostage rescue/SWAT teams; $37 million to support the FBI's improved personnel, facility, and information security; $23 million for additional maximum security prison space to house terrorist inmates; $2 million to assist the U.S. Attorneys in counterterrorism prosecutions; and $2.5 million to increase training for State and local law enforcement on the investigation of terrorist incidents.

- **Federal Bureau of Investigation [FBI]:** The budget requests $4.6 billion for the FBI, or a $383 million increase, and can hire an additional 1,911 new personnel, including 811 new intelligence analysts and surveillance personnel.

- **Drug Enforcement Administration [DEA]:** The President provides $1.6 billion for the DEA, a $13 million increase over the previous year. The budget also consolidates the Treasury, Coast Guard, and Justice Organized Crime Drug Enforcement Task Forces Program within the DOJ and increases the combined funding for these programs by 15 percent, or $71 million, over the fiscal year 2003 combined funding level.

- **Bureau of Alcohol, Tobacco, Firearms and Explosives [BATFE]:** Through the enactment of HSA, all of the enforcement actions of the Bureau of Alcohol, Tobacco and Firearms are being merged into DOJ, leaving only the revenue collection arm in the Treasury Department. Consistent with HSA, includes $10 million for the national Explosives Licensing Center, responsible for reviewing and acting on applications for all Federal explosives licenses and permits. For fiscal year 2004, the President requests $852 million for BATFE.

- **U.S. Marshals:** To increase security at or around Federal judicial buildings, the President's budget increases funding for the U.S. Marshals service to $721 million, an increase of $14 million, or about 2 percent.

- **Fighting Corporate Fraud:** The President's Budget includes and additional $25 million for DOJ to expand their investigative and prosecutorial capacity to address corporate fraud.

- **U.S. Attorneys:** Crucial to the legal prosecution of terrorist suspects, as well as corporate crooks and other Federal law breakers, the budget provides $1.6 billion for the U.S. Attorneys to pursue justice through the Federal judicial system.

- **Forensic DNA Programs:** The President's budget request $190 million for forensic DNA programs, including $177 to assist State and local crime labs clear their backlog of unanalyzed DNA samples and technology improvements. Additional funding of $13 million would also be invested in the FBI's national DNA database.

- **Office of Justice Programs [OJP] Grant Consolidation and Elimination:** The budget provides nearly $2.3 billion in discretionary funding for State and local assistance, or $386 million below the prior year's request. This reflects the elimination of the Juvenile Accountability Block Grant program due to poor performance, a reduction in the Justice Assistance Grant program, and other reductions, which are partially offset by the administration's $97 million increase for DNA initiative grants. The overall reduction is further due to the reallocation of resources for counter-terrorism efforts.

- **Community Oriented Policing Services [COPS]:** The President's budget requests $164 million for continuation of the COPS grants program but, citing the completion of the original program mission to hire or redeploy 100,000 police officers by the year 2000 and the inconclusiveness of the program's impact on crime, the President seeks no additional funds for the COPS hiring grants.

  The budget does, however, allow for officer hiring through the Justice Assistance Grant program funded around $600 million in the President's request.

- **Federal Bureau of Prisons [BOP]:** The budget provides $4.7 billion for the Federal Prison Systems. Included in the budget are $188 million worth of rescissions for the planning, design, and construction of several prison facilities that can be delayed or better served through other methods, such as contracting out.

- **Asset Forfeitures Fund:** The President's budget proposes to merge the Treasury Department's Asset Forfeiture Fund into a single Asset Forfeitures Fund within the DOJ.

DEPARTMENT OF THE TREASURY

The Treasury Department plays a crucial role in fighting the war against terrorism by detecting, disrupting, dismantling and blocking terrorist financing operations. Since September 2001, the United States and our allies have blocked a total of $124 million of terrorist-related assets worldwide. The following Treasury agencies are responsible for the success of these operations:

- **Office of Foreign Assets Control [OFAC]:** Crucial to the financial war against terrorism, OFAC administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under US jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments.

- **Financial Crimes Enforcement Network [FinCEN]:** Funded at $58 million in the President's budget (a 14 percent increase, or $7 million over fiscal year 2003), FinCEN has the unique role in linking the law enforcement and intelligence communities with the financial industry to root out illegal activities and schemes. The proposed increase will assist in improving information sharing capabilities and the expansion of the Patriot Act Communications System.

- **Internal Revenue Service – Criminal Investigation Division [IRS-CID]:** With their expertise in gathering and analyzing complex financial information, and applying the evidence to tax, money laundering, and Bank Secrecy Act violations, IRS Special Agents are an ideal resource for fighting the financial war on terrorism. To assist them in their efforts, including joint efforts with other agencies, the budget provides them with $4.0 billion ($476 million specifically for Function 750 and strictly Federal law enforcement activities) in fiscal year 2004.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

The President's Management Agenda [PMA]

The President's Management Agenda [PMA] is a means of evaluating the management of federal agencies (it is more fully discussed in a separate section in this report). The PMA uses a simple grading system – red, yellow, and green – to report each Federal agency's status and progress in achieving the "standards of success," specific good-government goals articulated for each of the initiatives. Green means the agency meets all the standards for success. Yellow indicates the agency has achieved some, but not all, of the criteria. A grade of red says the agency has any one of a number of serious flaws.

The Department of Justice

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

The Program Assessment Rating Tool [PART]

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable. Below is a summary of the administration's conclusions concerning selected programs and activities.

Department of Homeland Security

FLETC	Results Not Demonstrated
Immigration Services	Adequate

The Department of Justice

Bureau of Prisons [BOP]	Moderately Effective

Community Oriented Policing Services [COPS] .... Results Not Demonstrated
Cybercrime .... Results Not Demonstrated
Drug Courts .... Results Not Demonstrated
DEA .... Results Not Demonstrated
Juvenile Accountability Block Grants ..... Ineffective
Residential Substance Abuse Treatment ...... Results Not Demonstrated
Weed and Seed .... Results Not Demonstrated
White Collar Crime .... Results Not Demonstrated

Department of the Treasury

Office of Foreign Assets Control .... Results Not Demonstrated

Table 22: The President's Budget, Administration of Justice (Function 750)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	35,984	38,756	37,033	37,746	38,497	39,386	7.7	0.4
Outlays	36,142	39,413	38,920	39,458	37,947	38,696	9.1	-0.5
Discretionary								
BA	32,443	34,148	36,342	37,162	38,041	39,065	5.3	3.4
Outlays	32,972	35,640	38,189	39,131	37,869	38,756	8.1	2.1
Mandatory								
BA	3,541	4,608	691	584	456	321	30.1	-48.6
Outlays	3,170	3,773	731	327	78	-60	19	-97.2

Source: Office of Management and Budget. [a]Administration request.

GENERAL GOVERNMENT
(FUNCTION 800)

SUMMARY

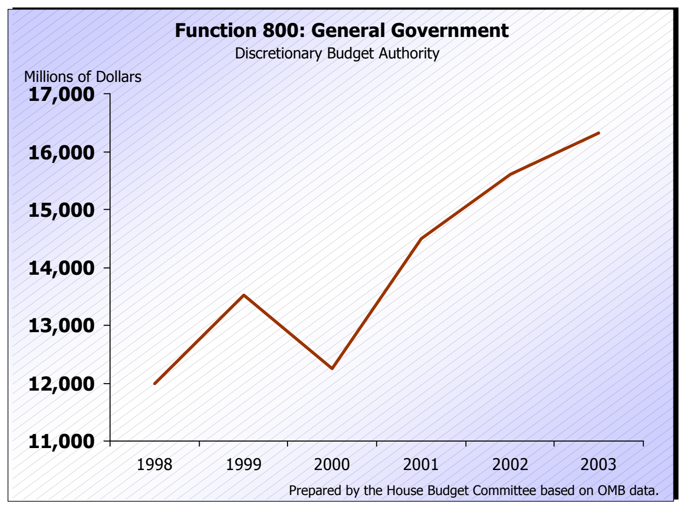
The General Government function consists of the activities of the Legislative Branch; the Executive Office of the President; general tax collection and fiscal operations of the Department of Treasury (including the Internal Revenue Service); the property and personnel costs of the General Services Administration and the Office of Personnel Management; general purpose fiscal assistance to States, localities, the District of Columbia, and U.S. territories; and other general government activities. The Internal Revenue Service [IRS] accounts for about half of the spending in this function

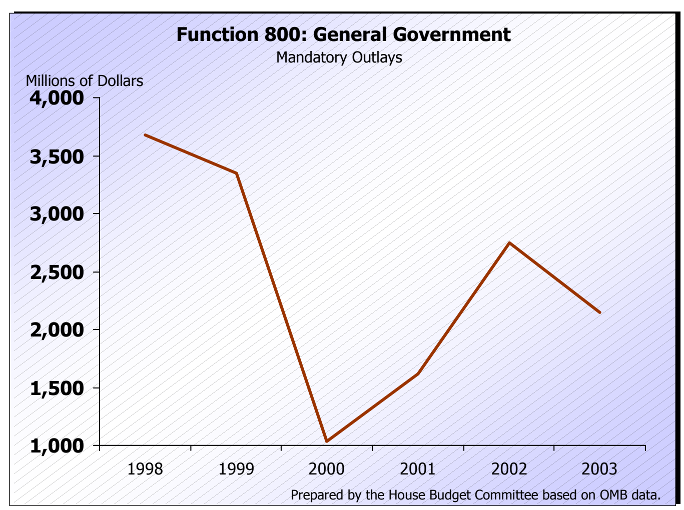
Under the President's fiscal year 2004 budget request, budget authority for Function 800 is increased from $18.292 billion, to $20.19 billion, a 10.4-percent increase in budget authority from fiscal year 2003. Outlays for 2004 increase from $18.998 billion in fiscal year 2003 to $20.503 billion for fiscal year 2004 an increase of $1.5.5 billion or 7.9-percent. Executive Office of the President when adjusted for the change in the Office of Homeland Security increased from $320 million in 2003 to $342 million in 2004 a 6.9-percent increase in BA. Similarly Legislative function increased from $3.1 billion in 2003 to nearly 3.4 billion in 2004 a 9.3-percent increase in budget authority.

If the President's proposal was adopted, budget authority would increase from $16.968 billion in 1999 to $20.19 billion in 2004, an average annual increase of 3.9-percent. Outlays would increase from $15.599 billion in 1999 to $20.503 billion in 2004, an average annual increase of 5.6-percent.

KEY COMPONENTS

- **Internal Revenue Service:** President Bush is requesting $10.4 billion for the Internal Revenue Service [IRS], an increase of $520 million from 2003, a 5.3-percent increase. Of that increase, $247.5 million is directed into Tax Law Enforcement [TLE] which includes the IRS spending $133 million for additional staff to strengthen compliance and target high risk areas such as tax shelters and abusive tax schemes. The IRS also is requesting an additional $105.2 million for the administration of the Earned





Income Credit [EITC] and an additional $49 million to continue it's Business Systems Moderation program.

- **Human Capital Performance Fund:** The budget includes $500 million to support the establishment of a Human Capital Performance Fund [HCPF] at the Office of Personnel Management. The new fund will provide additional pay to Federal employees based on their performance. The new approach will complement the existing General Schedule [GS] system. Performance-based awards would be counted for retirement and other benefit calculations.

- **Election Assistance Commission:** The President requests $500 million for the Election Assistance Commission in 2004, a 25-percent increase above the amount the President requested last year for 2003. The funds would be issued to states in the form of grants to purchase modern voting equipment. In October of 2002 Congress enacted and the President signed into law the Help America Vote Act of 2002 which would provide $2.8 billion over fiscal years 2002 through 2006, mostly for grants to states and localities to improve voting technology and election administration. The bill established the Election Assistance Commission to undertake activities to improve the administration of elections and set minimum standards for national elections.

- **Arctic National Wildlife Refuge:** In 2005, $1.2 billion would be paid to the State of Alaska under the Administration's proposal to open the Arctic National Wildlife Refuge [ANWR] for oil and gas leasing. The receipts portion appears in Function 950.

- **District of Columbia:** The President's budget provides $58 million in funding for the District of Columbia. Funding $10 million for the Anacostia Trailwalk, $15 million for Sewer Overflow plans, $15 million for D.C.'s public safety response and $17 million for D.C. Tuition Assistance. In addition, the President recommends that District be permitted to spend local funds without prior congressional approval.

Table 23: The President's Budget, General Government (Function 800)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	18,292	20,190	22,111	20,702	21,177	21,581	10.4	3.4
Outlays	18,998	20,503	22,005	20,533	20,957	21,468	7.9	2.5
Discretionary								
BA	16,329	17,771	18,188	17,960	18,353	18,820	8.8	2.9
Outlays	16,846	17,858	18,109	17,865	18,172	18,569	6.0	2.0
Mandatory								
BA	1,963	2,419	3,923	2,742	2,824	2,761	23.2	7.1
Outlays	2,152	2,645	3,896	2,668	2,785	2,899	22.9	6.1

Source: Office of Management and Budget. [a]Administration request.

FISCAL YEAR 2004 PERFORMANCE AND MANAGEMENT ASSESSMENTS

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Office of Management and Budget [OMB]

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

General Services Administration [GSA]

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Yellow
Expanding E-Government	Red
Budget and Performance Integration	Red

Office of Personnel Management [OPM]

Human Capital	Yellow
Competitive Sourcing	Red
Financial Performance	Yellow
Expanding E-Government	Yellow
Budget and Performance Integration	Red

Department of Treasury

Human Capital	Red
Competitive Sourcing	Red
Financial Performance	Red
Expanding E-Government	Red
Budget and Performance Integration	Red

Program Assessment Rating Tool

PART is a means of evaluating the effectiveness of Government programs (it is more fully discussed in a separate section in this report). The administration has given a high priority to this initiative.

PART uses a simple four-point rating system – effective, moderately effective, adequate, or ineffective – to assess a program's performance, as well as a fifth category – results not demonstrated – if adequate measures or data to gauge a program's performance are unavailable.

Below is a summary of the administration's conclusions concerning selected general government programs and activities.

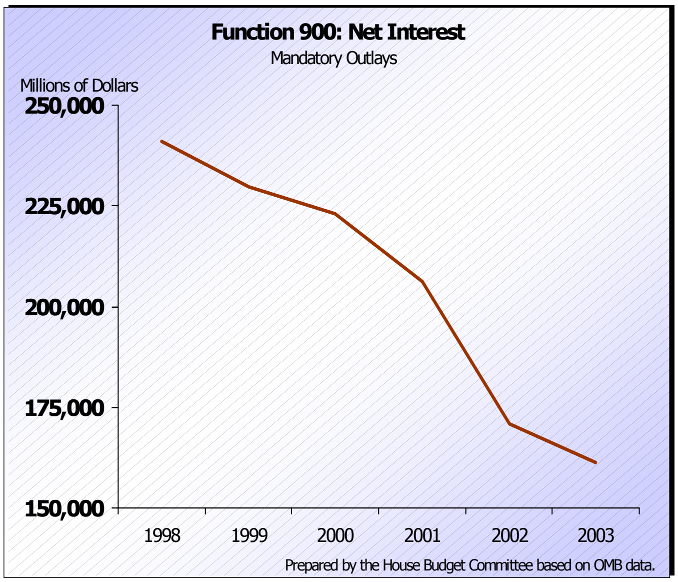
Department of the Treasury

ATF Consumer Product Safety Activities	Adequate
Bank Enterprise Award	Results Not Demonstrated
Coin Production	Effective
Earned Income Tax Credit Compliance	Ineffective
IRS Tax Collection	Results Not Demonstrated
OCC Bank Supervision	Effective
Office of Foreign Assets Control	Results Not Demonstrated
OTS Thrift Supervision	Effective

General Services Administration

Asset Management of Federally Owned Real Property	Results Not Demonstrated
Multiple Award Schedules	Results Not Demonstrated
Supply Depots and Special Order	Results Not Demonstrated
Vehicle Acquisition	Results Not Demonstrated
Vehicle Leasing	Results Not Demonstrated

NET INTEREST
(FUNCTION 900)



SUMMARY

Net interest is the interest paid for the Federal Government's borrowing. Function 900 is a mandatory payment, with no discretionary components. The accounting of net interest in the budget estimates total spending of $176.4 billion in budget authority [BA] and outlays in fiscal year 2004; $265.1 billion in on-budget interest payments and $88.7 billion in off-budget interest credits (the increasing Federal credit accruing to the Social Security Trust Fund surplus in the form of Government IOUs, and entered as negative spending). The average annual decrease in net interest in budget authority and outlays over the past 5 years (1999-2004) for Function 900 is 5.1 percent.

The Government now spends about 8 cents on the dollar for interest, the lowest level in 26 years. In 1996, it was more than 15 cents.

Table 24: The President's Budget, Net Interest (Function 900)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	161,441	176,396	204,026	224,530	239,845	254,072	9.3	9.5
Outlays	161,441	176,395	204,025	224,529	239,844	254,071	9.3	9.5
Mandatory								
BA	161,441	176,396	204,026	224,530	239,845	254,072	9.3	9.5
Outlays	161,441	176,395	204,025	224,529	239,844	254,071	9.3	9.5

Source: Office of Management and Budget. [a]Administration request.

ALLOWANCES
(FUNCTION 920)

SUMMARY

The Allowances function is used for planning purposes to address the budgetary effects of proposals or assumptions that cross various other budget functions. Once such changes are enacted, the budgetary effects are distributed to the appropriate budget functions in past years.

For discretionary spending, the budget calls for allowances of -$288 million in budget authority [BA] and -$297 million in outlays in fiscal year 2004. The 5-year totals are -$1.5 billion in BA and outlays. For mandatory spending, the budget resolution calls for no allowances in 2004 and offsetting allowances of $1.25 billion and -$1.25 billion in BA for each of 2005 and 2006. There is no past year spending as once a proposed policy change is made, the resulting cost is assigned to the agencies, programs and activities affected.

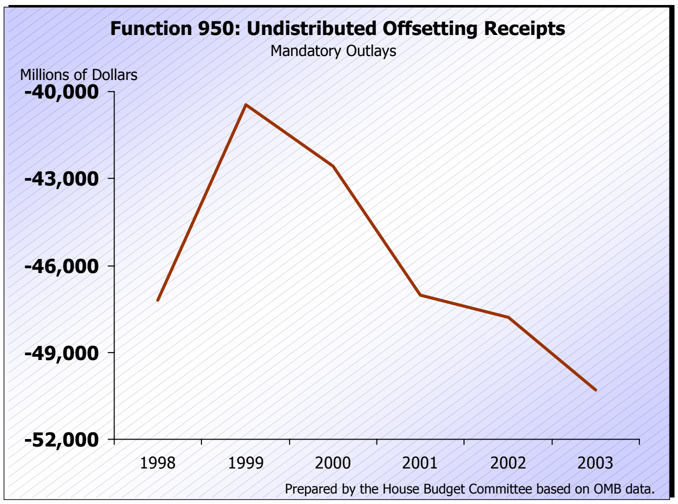
The budget includes a discretionary adjustment to certain pass-through accounts to reflect projected Presidential policy. On the mandatory side, the administration again proposes legislation to streamline the current process for reimbursing Federal agencies that must relocate from spectrum auctioned to commercial users.

Table 25: The President's Budget, Allowances (Function 920)
(dollars in millions)

	2003[a]	2004	2005	2006	2007	2008	Annual Percent Change 2003-2004	Annual Percent Change Average 2004-2008
Function Total								
BA	2,400	-288	957	951	-306	-314	-112.0	-22.6
Outlays	2,400	-297	-1,343	-1,148	195	287	-112.4	-34.6
Discretionary								
BA	2,400	-288	-293	-299	-306	-314	-112.0	-22.6
Outlays	2,400	-297	-293	-298	-305	-313	-112.4	-22.6
Mandatory								
BA	0	0	1,250	1,250	0	0	na	na
Outlays	0	0	-1,050	-850	500	600	na	na

Source: Office of Management and Budget. [a]Administration request.

UNDISTRIBUTED OFFSETTING RECEIPTS
(FUNCTION 950)



SUMMARY

Receipts recorded in this function are either intrabudgetary (a payment from one Federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some kind of business transaction with the Government). The main types of receipts recorded in this function are: the payments Federal employees and agencies make to employee retirement trust funds; payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf, and payments by those who bid for the right to buy or use public property or resources, such as the electromagnetic spectrum. These receipts are treated as *negative spending*.

The budget provides -$53.7 billion in budget authority [BA] and outlays for this function in fiscal year 2004, reflecting a -$3.4 billion, or -6.7 percent, increase in receipts (or decrease in spending) compared to the fiscal year 2003 budget. This amount is the baseline for offsetting receipts reduced by the reduction ($3.5 billion) in the Postal Service's contribution to the Civil Service Retirement System for prior year over-payments.

Table 26: The President's Budget, Undistributed Offsetting Receipts (Function 950)
(dollars in millions)

							Annual Percent Change	
	2003[a]	2004	2005	2006	2007	2008	2003-2004	Average 2004-2008
Function Total								
BA	-50,286	-53,668	-67,604	-68,309	-66,000	-68,473	-6.7	-6.4
Outlays	-50,286	-53,668	-67,604	-68,309	-66,000	-68,473	-6.7	-6.4
Discretionary								
BA	0	0	0	0	0	0	0	0
Outlays	0	0	0	0	0	0	0	0
Mandatory								
BA	-50,286	-53,668	-67,604	-68,309	-66,000	-68,473	-6.7	-6.4
Outlays	-50,286	-53,668	-67,604	-68,309	-66,000	-68,473	-6.7	-6.4

Source: Office of Management and Budget. [a]Administration request.

The average annual increase in receipts (or decline in spending) in budget authority and outlays over the past 5 years [1999-2004] for function 950 is -5.8 percent. The budget includes proposed legislation to permanently extend the Federal Communications Commission's authority (which expires in 2007) to auction spectrum. This actually reduces receipts by $2.0 billion in each of 2007 and 2008 (due to assumed delayed auctions made possible by extension) but then increases receipts by -$6.2 billion for the five years after that. The budget also assumes an analog spectrum lease fee that collects -$500 million a year in receipts starting in 2007, and a new spectrum license user fee for non-auctioned spectrum that starts in 2005 and raises -$1.9 billion over 10 years. Finally, lease bonuses from proposed ANWR exploration are recorded here starting with -$2.4 billion in 2005.

BUDGET PROCESS PROPOSALS

BUDGET CONTROLS

The Administration's budget calls for the extension of the now-expired caps on appropriations and pay-as-you-go [PAYGO] rule for entitlement and tax bills. Both the caps and PAYGO are enforced through automatic spending cuts. Originally enacted in 1990, the appropriation caps and PAYGO expired last September after several years in which they were largely ignored.

Appropriations Caps

The administration would impose a statutory limit on total discretionary appropriations for fiscal years 2004 and 2005. The caps would be set at levels consistent with the President's budget submission. Any appropriations enacted in excess of the cap would trigger automatic spending cuts in most discretionary programs subject to the caps in a process known as sequestration. The caps would be set at levels consistent with the budget request: $780.7 billion in budget authority in fiscal year 2004 and $811.5 billion in fiscal year 2005. Additionally, the caps could be increased by up to $12.6 billion in fiscal year 2004 and $13.4 billion in fiscal year 2005 if appropriations are enacted for specified activities. The combined discretionary levels of the proposed caps and the maximum adjustments to those caps are summarized in the table below:

Table 27: Budget Authority and Outlays in Billions of Dollars

	Fiscal Year 2004		Fiscal Year 2005	
	BA	OUTLAYS	BA	OUTLAYS
Cap	780.7	817.2	811.5	848.0
Maximum Adjustments	12.6	12.6	13.4	13.4
Total	793.3	829.8	824.9	861.4

Two-year caps - The proposed 2-year extension represents a departure from the 5-year caps enacted in 1990, 1993 and 1997. The administration, however, presents compelling data showing that the caps become largely unenforceable after two years.

Since the last extension in 1997, enacted appropriations exceeded the caps by an average of 3.89 percent in the first two years (fiscal years 1998 and 1999) and 18.08 percent in the last three years (fiscal years 2000-2002).

Cap adjustments - As indicated in the above table, the Administration would hold the caps and the Appropriations Committee harmless for appropriations enacted for these four separate initiatives. Specifically, the Administration proposes to automatically increase the caps for every dollar appropriated for each of the initiatives up to the specified ceiling.

The maximum adjustment for each of the activities or initiatives is as follows:

Table 28: Budget Authority and Outlays in Billions of Dollars

	Fiscal Year 2004		Fiscal Year 2005	
	BA	OUTLAYS	BA	OUTLAYS
SSA Continuing Disability Reviews	1.4	1.4	1.5	1.5
Earned Income Tax Credit Compliance	0.1	0.1	0.1	0.1
Funding for Accrued Cost of Fed. Employees' Retirement	11.1	11.1	11.3	11.3
Developing Costs for Yucca Mountain Repository	–	–	0.5	0.5
Total	12.6	12.6	13.4	13.4

Three of the four initiatives are for activities funded with discretionary appropriations that would either reduce mandatory expenditures or increase mandatory receipts, but which are not credited to the Appropriations Committees. Two of these initiatives were provided for in the past under the now-expired BEA. They are the Social Security Administration's continuing disability reviews and the Earned Income Tax Credit compliance.

Separate caps - The budget is silent on whether separate caps would be imposed on defense and non defense as was the case in fiscal years 1991, 1992, and 1993. It is assumed that the administration would extend the separate caps for highway funding, but this is not clear in its budget request. The number of caps is significant because they prevent the reallocation of resources from one category to another. That is, savings from restraining the spending in one category cannot be reallocated to another category.

Emergencies - The administration makes minor refinements to emergency spending by codifying a definition of an emergency. The administration would define an emergency as being sudden, urgent, not foreseen, not permanent, and calling for a necessary expenditure. Under the BEA, any appropriation that was designated (usually by law) by the Congress and the President was effectively exempt from the caps. The administration also proposes to exclude emergency-designated expenditures from the baseline, the set of projections that is used to construct the budget resolution.

The concept of codifying the definition of an emergency into law was first proposed by Chairman Nussle in the first session of the 106th Congress, but it was coupled with a reserve fund for emergency spending. The Senate adopted the definition for enforcing a point of order in the second session of the 106th Congress.

While the administration would codify the definition an emergency, it does not appear to limit appropriations that meet the terms of that definition. Nor does it propose, as it did in its fiscal year budget, a reserve fund for emergencies or fully funding certain natural disaster-related accounts.

Advance appropriations - The administration would plug another loophole in prior caps by limiting total advance appropriations to the levels provided in the fiscal year 2002 budget resolution, $23.2 billion. Advance appropriations are appropriations passed in one budget cycle that do not become available until the following cycle and hence do not count against the limits for the budget year.

The administration's proposal mirrors a congressional innovation in the fiscal year 2002 budget resolution and the House-passed fiscal year 2003 budget resolution that limited the amount of advance appropriations Congress can provide in any given year.

Accrual Cost of Retirement Benefits

Currently Federal agencies' share of the costs for retiree pensions, pay and health care are not being fully accrued. Some of the earlier retirement systems are only partly funded and certain retiree health care is not accrued. The President's budget submission recommends that Congress enact legislation that charges Federal agencies their full share of the accruing cost of all retiree benefits as those benefits are earned, and to amortize the unfunded liabilities of the retirement funds by payments from the general fund.

Pay-As-You-Go

The administration would also extend the PAYGO requirements for 2 years. Under PAYGO, any newly enacted law creating or expanding an entitlement, not subject to annual appropriations, or reducing revenue, must be offset proportionately by subsequent legislation reducing entitlement spending or increasing revenue. If offsets are not enacted by the end of the session, then a limited number of entitlement programs is subject to automatic spending cuts.

In a major change to PAYGO, the administration would require offsets for only 2 fiscal years. Previously, PAYGO required offsets for 5 fiscal years. In addition, a Senate rule requires offsets for a 10-year period. If offsets were required for only 2 years, authorizing committees would have an incentive to shift the cost of legislation into the third, fourth, and fifth years.

While the administration would extend PAYGO, it does not propose offsets to its own entitlement or tax initiatives. The administration proposes $ 63.4 billion in entitlement and tax initiatives (excluding the stimulus package) for fiscal years 2004 and 2005, but only $ 23.5 billion in offsetting entitlement savings or revenue increases.

BUDGET PROCEDURES

Joint Budget Resolution

The administration proposes converting to a joint budget resolution, which – unlike the existing concurrent resolution – would have the force of law if signed by the President. It would set parameters on spending, revenue, and debt. Like the existing budget resolution, it would establish the budgetary framework within which proposed appropriations, entitlement, and tax bills could be considered.

Currently the President and the Congress each have their own budgetary blueprints: the President's budget request, which has no legislative standing and is not even subject to a vote; and the Congress' budget resolution, which is not presented to the President for signature. Consequently, the Congress and the President must enter negotiations over individual appropriations bills before agreeing on an overall amount of discretionary spending.

A joint budget resolution would provide the framework for getting a common agreement between the President and the Congress on the basic parameters of the Federal budget. Once there is an agreement on overall spending and revenue levels, the two can turn to such programmatic and distributional issues as determining the appropriate funding levels for individual programs, and the appropriate tax policy.

A joint budget resolution would have the additional advantage of making its budget priorities legally binding. If budgetary levels are enacted into law, additional sanctions can be imposed as automatic spending cuts.

The concept of a joint budget resolution has been criticized as providing the Executive branch undue influence on the spending process, which is considered a prerogative of the Congress. While the Administration would still submit a budget reflecting its own priorities and each House would pass their own budget resolution, there would be no vehicle to reflect the combined priories of the Congress; any conference agreement between the two Houses would have to partially reflect the President's priorities.

Chairman Nussle has favored the concept of a joint budget resolution, but a bill providing for a joint resolution among other wide-ranging reforms was defeated in the House in 2000.

Biennial Budgeting

The administration proposes moving the budget and appropriation bills to a biennial cycle. The administration's proposal envisions that either the new (joint budget resolution) would cover a period of 2 years, or appropriations bills would provide two separate year-long appropriations as a single appropriations that would be spread out over 2 years.

Proponents of biennial budgeting argue it will free up time for oversight-related activities. It has also been suggested that appropriations would be lower because there would be no vehicle for increasing spending in the second year of a biennial cycle. It is also hoped that the inability to enact appropriations in the second year will keep down overall appropriations.

Critics argue it will reduce oversight because most day-to-day oversight is exercised through the appropriations process. Agencies with 2 years of guaranteed funding will have little incentive to respond to Congressional demands. It is also argued that – contrary to many States whose legislatures meet every 2 years – it makes little sense to budget only every 2 years when the Constitution requires the Congress to meet annually. Finally, it is argued that biennial budgeting will actually increase spending by pushing appropriations into annual supplemental appropriation bills, which are particularly vulnerable to log-rolling. The support for biennial budgeting tends to be strong in the Executive branch, particularly from former Governors from States in which biennial budgeting is practiced. President Bush, for example, hails from a state which by necessity practices biennial budgeting because the State legislature only meets every other year.

The Federal Government's only experience with biennial budgeting was rather inconclusive. The 1987 defense authorization bill required a biennial appropriations for the Defense Department. Although for a time, the Administration requested two-year appropriations, none was ever enacted. Eventually even the Administration stopped requesting biennial appropriations.

Line-Item Veto

Five years after the U.S. Supreme Court struck down the Line-Item Veto Act of 1996, the administration proposes adopting some form of line item veto in which the President could block appropriations for individual programs, projects & activities without vetoing the entire bill in which they are contained. The administration's proposal would also allow the President to block targeted tax benefits (benefits limited to 100 or fewer persons).

With the demise of the line-item veto, the law merely permits the President to delay obligating appropriated money for 45 days during which he can request that the Congress pass legislation rescinding or defer the money. If the Congress does not pass a bill rescinding or delaying the money within the 45-day time period, then the President must release the funds. Moreover, there is no requirement that Congress vote on the President's proposed rescissions and deferrals.

The budget does not disclose how a line-item veto would be designed to pass constitutional muster. One possibility would be to simply require the Congress to at least vote on the President's proposed rescissions and deferrals. Another possibility would be to put the line-item appropriations that comprise an appropriation bill into separate bills and present each separately to the President. The most radical would be to amend the Constitution as has been done in many States.

Automatic Continuing Resolution

The administration repeats its request of previous years for an automatic interim appropriation if appropriations are not enacted for the current year. If any of the 13 appropriations bills are not enacted by 1 October, the administration would fund the program, projects and activities funded by that measure at the lower of the prior years' level over the President's budget submission.

The administration's proposal comes at a time when most Federal agencies have operated under a series of short term CRs for almost 4½ months of the current fiscal year and there is talk about passing a CR for the balance of the year. It would give the administration considerable leverage in the budget process, because the President's veto of any appropriations bill would lead to funding the measure at the level proposed by the present administration, or the prior year's level. Given recent trends, this is likely to be closer the President's request than any supported by the Appropriations Committee.

With most Federal agencies operating under a CR 4½ months into fiscal year 2003, congressional supporters argue that the Congress has effectively embraced the concept. The critical difference is that the Congress has had to act on each of the interim continuing resolutions while no such action would be necessary under an automatic CR. Given the vehement opposition of the Appropriations Committee to an automatic CR, however, the administration is not expected to actively press for the automatic CR.

FISCAL YEAR 2004
PERFORMANCE AND MANAGEMENT ASSESSMENTS

THE PRESIDENT'S MANAGEMENT AGENDA [PMA]

In August 2001, the President announced an ambitious agenda for reforming the management of the Government and improving the performance of Federal programs. The PMA aims not only to correct long-standing problems, but to improve the Government's performance. The agenda includes five government-wide initiatives and nine program-specific initiatives that represent longstanding management challenges for the Federal Government.

- The Strategic Management of Human Capital initiative makes agencies prepare for massive impending retirements and remedy deficiencies in the skills of their employees.
- The Competitive Sourcing initiative requires agencies to make sure the most efficient sources perform their commercial activities.
- The Improved Financial Performance initiative improves the quality of financial information so that agencies can ensure the integrity and efficiency of their operations.
- The Expanded Electronic Government [E-Government] initiative improves the management of information technology. It also streamlines and simplifies the delivery of Government services through the use of the Internet.
- The Budget and Performance Integration initiative enhances the quality of information on program results so that Government can make better decisions about its allocation of resources.

THE PROGRAM ASSESSMENT RATING TOOL [PART]

The administration's efforts to link budget and performance began with last year's budget. The fifth element of the President's Management Agenda – budget and performance integration – stresses making budget decisions based on results. This year, that link was formalized. A new instrument for assessing government programs in an objective and transparent manner, called the Program Assessment Rating Tool, was introduced. The PART evaluates a program's purpose and design, planning, management, and results and accountability to determine its overall effectiveness.

The PART is an accountability tool that attempts to determine the strengths and weaknesses of federal programs with a particular focus on the results individual programs produce. This year's budget rates one-fifth of all Federal programs, with the goal of reviewing an additional 20 percent of Federal programs each year. PART's overall purpose is to lay the groundwork for evidence-based funding decisions aimed at achieving positive results.

The PART consists of approximately 30 questions, depending on the type of program. The PART's first three sections, focusing on program purpose, strategic planning, and management, follow a yes/no format. The fourth homes in on results. It uses a four-point scale to note partial achievement of goals. Answers must be substantiated by a brief narrative explanation and evidence. Each individual "yes" answer points to a potential high level of performance overall. A "no" answer indicates no evidence is available, or the program has failed to perform. PART's sections are weighted to reflect the importance of each section.

- Program Purpose and Design: This element assesses whether the program design makes sense. Weight: 20 percent.
- Strategic Planning: This components of the assessment evaluates whether the agency sets valid annual and long-term goals for the program. Weight: 10 percent.
- Program Management: This rates agency management, including financial oversight and program improvement efforts. Weight: 20 percent.
- Program Results/Accountability: This rates program performance on goals reviewed in the strategic planning section and through other evaluations. Weight: 50 percent.